Post-Merger Integration (PMI):
Overview and Identification of Main Problems in People Management Context

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The President:

Prof. Dr. Thomas Bieger
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St. Gallen, November 2013

Nella Foley
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Abstract

In the era of continuous improvement, companies continue to engage in various alliances and partnerships in efforts to increase their competitiveness and succeed in global markets. Despite the fact that the rate of failure among mergers and acquisitions remains high, companies continue to choose exactly this particular growth strategy. An extensive literature review on the role of human factor in post-merger integration (PMI) depicts how integration on people level may influence the execution of entire merger and therefore its possible success or failure. It also emphasizes the role of stressors, the reasons for problems arising in post-merger integration.

This thesis is structured as a monograph and consists of an introductory chapter, theoretical and empirical sections, followed by a conclusion section and a set of recommendations.

The introductory chapter outlines in detail the motivation for the thesis, research objectives and questions, and provides an overview of relevant literature concepts and theories on post-merger integration within particular people-related dimensions. The theoretical part brings up an importance of stressors as well as refers to the 4P Model of Glocal Human Resources Management (Hilb, 2009), which serves as a base and sets boundaries for description of people dimensions throughout the thesis. Theoretical section is concluded by introduction of author's own theoretical framework, based on the 4P Model and integrative framework by Seo & Hill (2005).

The empirical section answers thesis research questions and focuses on presenting a holistic view of PMI process execution on the people level in context of a single case study. Further, taxonomy of specific problems and their sources as well as a set of recommendations concludes the section. Results of the research explore that the intergroup conflict, loss of identity and role ambiguity are the main stressors and therefore cause a majority of problems and disputes among employees during PMI process. This thesis augments existing research on the role of human factor during PMI process. In particular thesis explores a range of concrete problems and challenges that each merged company may face and highlights relevance of stressors, which in people context provoke and accelerate an occurrence of problems throughout the entire PMI organization, often beyond the people dimension. Furthermore, this thesis also contributes to management practice by providing practical recommendations concerning execution of post-merger integration among employees.
Zusammenfassung


Die Arbeit befasst sich insbesondere mit konkreten Problemen und Herausforderungen, denen fusionierte Unternehmen gegenüberstehen und betont die Bedeutung von spezifischen Stressoren.

Post-merger integration. Problems in people management context.
Management summary

This thesis is the result of research on post-merger integration (PMI). It explores PMI human resources dimension, gives an insight on processes that take part on this particular level once companies merge as well as highlights the problems that occur and their sources. In order to specify human resources context the 4P Model of Glocal Management of Human Resources in a transnational corporation (TNC) (Hilb, 2009) is introduced. Presented in figure 1 below the model highlights its people management level in particular. It sets a boundary for the present thesis and helps to focus on specific areas included within people level. These human dimensions refer to both performance management, including aspects such as leadership, communication, industrial relations and quality of work life, and personnel management comprising the following areas: retention of key employees, appraisal, reward and succession planning.

Figure 1: 4P Model of Glocal Management of Human Resources

Source: simplified illustration of The 4P Model of Glocal Management of Human Resources (Hilb, 2009).

As far as problems of people integration and their sources (stressors) are concerned the author of this thesis refers to the integrative framework by Seo & Hill (2005) focusing on the role of stressors in post-merger integration process.

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The Seo & Hill (2005) model is described in this thesis later on. In order to answer thesis's objective and research questions, author's own theoretical framework was introduced, based on components of the 4P Model by Hilb (2009) and integrative framework by Seo & Hill (2005). The author's theoretical framework, presented in the figure 2 below and later on in this thesis¹, outlines the structure of the research and serves to answer research questions concerning the execution process of PMI and leads to identification of concrete problems and their reasons. It also indicates certain tools that may be applied during PMI execution process.

¹ see pp. 21-26.
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Figure 2: Theoretical framework of the thesis

Source: own

The thesis is concluded by introduction of the taxonomy of specific problems and stressors, provides a set of recommendations to practitioners, integration leaders and scholars, and makes references to certain aspects of the Fiat-Chrysler merger.
1 Introductory part

With more and more companies choosing mergers & acquisitions (M&A) as their preferred means of growth, the post-merger integration (PMI) phase has become substantially more important; perhaps even the deciding factor whether a merger will succeed.

The PMI is an inevitable and integral process for all corporate mergers, and a process which heavily influences the future success and survivability of the new entity in a modern competitive business environment.

The subject of this research project is post-merger integration (PMI) – the integration required after two formerly independent entities come together to form a completely new organization (Epstein, 2004). Merger integration differs from integration happening during acquisitions, when integration is a process of fitting one smaller company’s systems, structure, and culture into the existing structure of a larger organization; or conglomereration, another growth strategy, in which companies are brought together without any clear attempt to create synergies or meld strategies, keeping them separate to provide the advantages of decentralization and autonomy (Epstein, 2005).2

Contemporarily the terms merger and acquisition are used interchangeably and a true merger, merger of equals3, takes place quite rarely (Hogan & Overmyer, 1994). In the literature many acquisitions are indeed described as a merger in order to avoid the dominance of one firm (Piekkari, Vaara, Tienari & Säntti, 2005). However, the present research on post-merger integration will refer to mergers only4.

A large number of scholars investigate the area of post-merger integration in people context, often concluding the significance and importance of people issues in post-

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2 Cartwright & Cooper (1990) distinguish also concentric type, where one of organizations is in unfamiliar but related field, into which the other party wishes to expand.

3 Although the merger between Daimler-Benz and Chrysler initially was announced and known as merger of equals, the former CEO of DaimlerChrysler few years later admitted that "the 'marriage of equals' pitch was, from the start, a mere ruse to sell the deal to Detroit" (The Economist, 2000).

4 The merger of equals between JP Morgan and Chase Manhattan Bank is an example of a successful merger, mainly because the post-merger integration, centered on human capital, capabilities and overcommunication, as well as due diligence were designed and developed over 10 years, enabling completion of the merger quickly and smoothly (Epstein, 2005).
section 1: introductory part

merger integration (Cartwright & Cooper, 1990; Datta, 1991; Epstein, 2004; Larsson & Finkelstein, 1999; Marks & Mirvis, 1992; Napier, 1989; Tetenbaum, 1999). This thesis adds to the extensive literature review by identifying specific problems that merged companies face during PMI process. Also, certain merger stressors are addressed and assigned to each problem as its source of emergence.

The introductory section presents the overview of the thesis, presenting the problem analysis, the objective of the thesis, research questions, the level of innovation, and certain limitations of the research.

This thesis is structured as follows: firstly, the problem analysis of the research will be presented. Both research objective and research questions will be portrayed. Secondly, the literature review on post-merger integration in people management context will be introduced, illustrating the relevant concepts and approaches, and focusing on problems and challenges of the PMI process. This part will be concluded by presenting a research gap. Thirdly, the structure, criteria and limitations for empirical research will be highlighted. The single case study of DaimlerChrysler post-merger integration will be presented. Finally, taxonomy of problems and their sources, which occur during PMI in people context in practice, will be proposed. This thesis will be concluded by a brief presentation of the recent merger between Chrysler and Fiat (FCA).

1.1 Problem analysis

The major motives for conducting this research and preparing this thesis are the following:

(1) to provide an insight into people management aspect of PMI and explore the range of problems and challenges that companies struggle with in PMI change;

(2) to present a classification scheme of these problems, as a result of empirical research, and emphasize the sources of problem occurrence. This might serve as a guideline to their practical applications, useful to practitioners and integration leaders of upcoming mergers in particular;

(3) to increase practitioners’ awareness of possible pitfalls that would hurt the successful realization of PMI process;
(4) to enrich the existing bibliography on human dimension of PMI process;
(5) to further increase an awareness on the role and importance of human factor in post-merger integration;
(6) to provide empirical evidences on problematic areas, identified in practice.

1.2 Research objective

The purpose of the present research project is not only to present the post-merger integration process as such, but above all to highlight one of its critical areas – human dimension, or people management aspect. The present research aims to articulate problems that occur in post-merger integration phase in particular. Also, the specific sources of these problems, known in the theory as stressors, will be identified. Furthermore, a special attention will be given to identification of tools applied during integration within people-related areas. In summary, the research objective of this dissertation can be formulated as follows:

*The dissertation aims to study the post-merger integration (PMI) process in people management context, to study profoundly the areas to which people management refers, and to identify problems and their sources that occur during PMI at companies in practice.*

1.3 Research questions

As far as the research objective of the dissertation and measurements needed to achieve it are concerned, the following research questions are addressed:

**RQ 1:** How is the post-merger integration executed in people management context?

In order to answer this question the core areas of human dimension will be examined. Here, special attention will be given to the 4P Model of Glocal Management of Human Resources (Hilb, 2009) that defines the human resource management through performance and personnel management and their sub-aspects. These sub-aspects will be analyzed in terms of post-merger integration along with problems that occur within each. Further, a thorough literature review will be conducted, with a focus on existed theories and academic concepts in the field.
**RQ 2:** What are the problems and their stressors that occur during PMI process in terms of people management?

An answer to this question will be portrayed in the empirical part of the dissertation. A case study will serve as a research method. Semi-structured in-depth interviews with practitioners who experienced the PMI will take place in order to identify problems that occurred on the people level in practice. As a result of empirical research a classification of problematic issues along with their sources will be proposed. Also, sporadically, certain tools in a form of toolboxes will be presented, used for smoothing the integration process in the people context.

**1.4 Methodology**

The structure of this thesis encompasses two parts: theoretical and empirical. *Theoretical section* will include an overview of general and specific concepts in the field of post-merger integration in terms of people management and its particular aspects, such as leadership, communication, industrial relations, quality of work life, retention of key talents, appraisal, reward and succession planning. These aspects are included into the 4P Model of Glocal Management of Human Resources by Hilb (2009), described further in this thesis. Based on extensive literature review and comprehensive research the 4P Model is particularly relevant as it represents the people management aspects crucial for the post-merger integration process.

Identification of problems and awareness of challenges within each people dimension helps to prevent their occurrence in future mergers. Also, the 4P Model is applied in the present thesis in order to limit a much broader people management context that includes other areas beyond those in the 4P Model.

Another framework applied in the theoretical section is integrative framework by Seo & Hill (2005) that indicates specific sources of problems (stressors) during post-merger integration. As far as the 4P Model highlights the people management areas and their problems in this thesis, the integrative framework provides a support to explain why particular problems occur and what the reasons behind them are.

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5 see p. 22.
Empirical section will be based on qualitative technique and therefore will encompass data collected during interviews with practitioners, from scientific and research articles, books, documents and press-releases. The goal will be to identify problems and challenges of PMI process, to specify their sources and provide key recommendations for future mergers.

As far as a research method is concerned, a case study among other methods has been chosen. Punch (2005) refers to the dictionary of sociological terms and defines that case study is "a method of studying social phenomena through the thorough analysis of an individual case. [...] The case study method gives a unitary character to the data being studied by interrelating a variety of facts to a single case" (2005: 145). Yin (2009) presents a set of methods that can be applied in research depending on the research question, control level and a nature of the event. Case study method focuses on answering questions how and why, requires no control of event and focuses on contemporary event. The how focuses on the research question of how the post-merger integration is executed in people context, whereas the why question refers to the question of what failed within people integration (what problems?) along with information why did problems occur (what stressors?). In this case the question what reflects its exploratory nature (Yin, 2009). Further, although the chosen case study of PMI at DaimlerChrysler is not happening as this research being prepared, it refers indirectly to the FCA merger between Chrysler and Fiat. Chrysler as a direct part of former DaimlerChrysler merger and Chrysler-Fiat merger is the bridge that leads exactly to the case study method selection and proves that lessons learned from the past DaimlerChrysler post-merger integration are relevant up to the present date.

Alternative methods considered for this research, but not chosen, were archival analysis and history. Archival analysis indeed answers the what question but in a form of how many or how much. Also, this method is applied when the goal is to present "incidence or prevalence of a phenomenon or when it is to be predictive about certain outcomes" (2009: 9). Another research method considered for the present research was history, which relies on many of the same techniques as a case study. Compare to historical study however, a case study is advantageous method and adds certain sources of evidence that are absent in historical study. These are interviews with persons involved in the event, direct observation and ability to deal with variety of evidence such as documents and interviews (Yin, 2009).
1.5 Level of innovation

Theoretically the research project will contribute by providing an insightful overview of people management aspects, relevant during PMI as well as by highlighting key aspects of process execution. Practically the present thesis will contribute by providing practitioners and readers interested in the topic with classified problems, which might serve as a watch-out list and would be considered as potential pitfalls against proper execution of people integration. Also, this dissertation contributes by classifying stressors that cause emergence of identified problems.

1.6 Definitions of post-merger integration (PMI)

Scholars who investigate the field of post-merger integration usually present their own definition of this process, reflecting various perceptions and understandings. The following definitions of the post-merger integration processes as identified in the literature are introduced in the table 1 below.

Table 1: Definitions of PMI

<table>
<thead>
<tr>
<th>Source</th>
<th>Definition</th>
</tr>
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<tbody>
<tr>
<td>Lajoux (2006: 4)</td>
<td>&quot;The term M&amp;A integration refers primarily to the art of combining two or more companies (not just in paper, but in reality) after they have come under common ownership. M&amp;A refers to the merger or acquisition transaction that leads to the combination, and integration refers to the combining of elements that will enable the two companies to function as one. M&amp;A integration can involve entities other than companies (for example, nonprofit and governmental organizations) and transactions others than mergers or acquisitions (for example, joint ventures, strategic alliances, and partial acquisitions).&quot;</td>
</tr>
<tr>
<td>Haspeslagh &amp; Jemison (1991: 106)</td>
<td>&quot;Integration is an interactive and gradual process in which individuals from two organizations learn to work together and cooperate in the transfer of strategic capabilities.&quot;</td>
</tr>
</tbody>
</table>

Post-merger integration. Problems in people management context.
Post-merger integration. Problems in people management context.

Prozesse Integrationskonzeption, -durchführung und -controlling, die sich auf organisations-, informations-, und marktorientierte Aspekte erstrecken."

*Own translation into English:*

"The PMI integration management of two or more entities is established with a goal of improving their market and competitive positions. Integration includes both tangible and intangible resources transfer and takes place through the processes of integration design, implementation and control, extending to organizational, informational and market aspects."

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<table>
<thead>
<tr>
<th>Author</th>
<th>Citation</th>
<th>Translation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Galpin &amp; Herndon (2007: 18)</td>
<td>&quot;This is the actual process of planning and implementing the […] organization’s processes, people, technology, and systems.&quot;</td>
<td></td>
</tr>
</tbody>
</table>

*Own translation into English:*

"The description of the concept within M&A-transactions defines integration as an evolutionary process on multiple levels, which: is driven particularly by the purchaser or (in case of a merger) by the jointly appointed by the parties, the governing body (Steering Committee), is affected primarily by the interaction of employee skills and intangible know-how of the M & A transaction parties, thereby also brings a change in the use of material resources, leads to increased value of both companies through the use of higher potentials offered by the M&A-transaction."
1.7 Limitations of research

The focus of the present thesis is the most common, strategic type of mergers. Such transactions are aimed at developing synergies between merging firms through integrating the management teams, organizational structures and cultures, systems and processes of the two pre-merger organizations (Waldman & Javidan, 2009).

This research project will present the post-merger integration, although highlighting integration on people level particularly. Only certain people management aspects, derived from the 4P Model of Glocal Management of Human Resources, will be introduced, excluding for example a culture perspective, which usually plays a vital role in the PMI process, particularly in the event of international mergers.

Due to the higher importance and relevance of some human-related areas upon the overall post-merger integration process and due to volume limitations of the thesis, the people integration will be presented in terms of two aspects. Derived from the 4P Model these are: performance management aspects, including leadership, communication, industrial relations, and quality of work life (QWL); and personnel management along with areas of retention the key employees, appraisal, reward, and succession planning.

Further, the focus of the thesis is to present the overall picture of most common problems and their sources that occur in people context during post-merger integration. Therefore attention is given to building a broader picture, rather than to specific details of each aspect. Also, an analysis of each human dimension is to a certain extent limited due to lack of access to relevant sources (e.g., archive).
2 General theoretical part

2.1 Post-merger integration as a change process

Both merger and its post-merger integration are perceived by researchers as complex phenomena representing a very difficult organizational change process where leadership and proper management of this change belong to crucial factors which help to reduce the risk of PMI failure (Covin, Kolenko, Sightler, & Tudor, 1997; Lauser & Peters, 2008; Kavanagh & Ashkanasy, 2006). Coping with change successfully is a grand challenge faced by practitioners, and by far not every organizational change is successful. The chance to succeed is even smaller when fundamental change such as a merger and following integration takes place, causing further major changes in strategy, processes, and culture of the merged companies. The number of variables influencing such a complex phenomenon as integration process is hard to define, as well as a clear linear cause-and-effect relationship during integration (Lauser, 2010; Lauser & Peters, 2008). Complexity theory\(^6\), presented by Lauser (2010), moves away from this linear, mechanistic view of a world with simple cause-and-effect explanations towards a more organic view when organizations experience tension and a non-linear behavior starts to emerge, characterized by uncertainty and unpredictability (Lauser & Peters, 2008). In this complexity theory perspective an organization is perceived as a complex adaptive system, CAS\(^7\), that includes various individuals, groups, their interactions and relationships, and own behavior (Lauser, 2010; Mitleton-Kelly, 2006). A complex adaptive system, CAS, is a concept used for explaining change process, and arises when complex system approaches edge of chaos (Kauffman, 1995). It is characterized by the following features: connectivity and interdependence; feedback, far-from-equilibrium, and self-organization; emergence, new order and space-of-new possibilities (Kauffman, 1995; Lauser & Peters, 2008).

\(^6\) Complexity theory is not one single theory but a science which has its origin in the physical and natural sciences (Lauser, 2010). It builds on general systems theory and on chaos theory, along with certain additional characteristics. General system theory views organization as systems with many sub-systems which are managed by the principles of equilibrium. According to the chaos theory, organizations are perceived as chaotic systems that are unstable and system never attains an equilibrium state (Lauser & Peters, 2008).

\(^7\) Lauser & Peters (2008) refer to two possible perspectives on the nature of CAS: orthodox perspective, saying that CAS behavior is possible to predict and explore regularities and schemas can be modeled by computer; and connectionist approach perspective, with self-organization, interdependence, and connectivity as critical features to the emergence of a new order.
As far as above mentioned CAS characteristics are concerned, Lauser & Peters (2008) analyze each of them in terms of post-merger integration as a genuine complex adaptive system.

The initial phase of PMI is characterized by numerous group dynamics and a high degree of conflicts as people from two different systems need to be formed and integrated according to a new organizational structure. Therefore many new connections and interdependencies, formal and informal, between individuals, groups and departments within this new reality may emerge. This causes many feedback mechanisms, both positive and negative, and the whole system becomes unstable at a certain point where people feels disconnected and no longer rely on their old networks, a state of edge of chaos (Kauffman, 1995; Lauser, 2010). This is a time when, in order to effect the change in a positive direction, interdependencies and connections in new structures are needed and, moreover, should be forced, encouraging employees to interact and participate in the process. Therefore, communication, meetings and workshops are key, in order to build up a new network within new environment (Epstein, 2004; Lauser & Peters, 2008). Among employees a high tension evolves and they try to organize themselves into certain groups, perceived as a positive prerequisite for becoming a self-organization. New interrelations and connections help the organization to change from old to entirely new patterns, to establish new work procedures, and to foster integration (Lauser, 2010). This is when a platform for new opportunities, i.e., space-of-new-possibilities, is being created. Promoting a self-organization, exploration of these new opportunities and possibilities is key to creativity and innovations. It is also a prerequisite to co-evolutionary integration, when partners influence each other in a reciprocal way and find the best way to work together (Mitleton-Kelly, 2006).

Lauser (2010) refers to Lichtenstein (2000) concerning three important qualities necessary for a positive self-organization, i.e., self-referencing, increased capacity, and independent organizing. In post-merger integration these qualities occur only partially. For example, self-referencing exists only if common values and beliefs are present, but in PMI there are no common values, as employees are attached to old patterns and values systems. Therefore this quality in PMI practically never exists until the new structure and values systems are created and provided by a leader. This is what makes it challenging for a leader to provide the necessary infrastructure to enable a positive self-organization. In merged organizations, however, a positive self-organization may not emerge as qualities, named earlier, are not present.
The post-merger integration is a system of complex processes with multiple sub-systems. Each of them can also be perceived as a separate complex adaptive system along with changes and transformational processes taking place (Lauser, 2010).

Lichtenstein (2000) argues that the change process, including PMI, is somewhat similar, developing a concept of adaptive system change that consists of the three following stages:

1. increased organizing,
2. transition and a threshold of change,
3. emergence of new configuration.

In light of post-merger integration the increased organizing takes place already in the pre-merger situation when both organizations still work separately and the major transitional change, the merger, has not yet happened. At this point the transition and a threshold of change take place. This is a moment when tension is high and self-organization creates new patterns of behavior and the emergence of a new configuration starts (Lauser, 2010).

Mitleton-Kelly (2006) argues that an organization, adopting a complexity perspective, has a great chance to succeed but only if it actively facilitates new structures and relationships that would enable a self-organization to emerge and therefore exploit alternative ways of working and dealing with daily business. Though the structure of such organization will rather reflect a fuzzy matrix (neither organized nor random), it would foster distribution of power, intelligence and knowledge throughout the organization. This, in effect, will create connections and interdependencies, build collaborative culture, and therefore will help emerge a new organization able to cope with unpredictably arising phenomena to achieve a co-evolutionary integration.

### 2.1.1 International mergers

Since decades now mergers and acquisitions (M&A) has been a significant growth and diversification strategy to internal growth of companies, enabling a fast penetration of new markets, obtaining economies of scales faster, acquiring the cutting-edge know-how, and willingness to reap all other benefits from their expansion. Mergers involve two entities coming together and taking the best of each company to form a completely new organization. This relation between two entities very often causes a power struggle, as members of both companies seek control over the new organization.
(Epstein, 2005). Therefore parity is one of the significant characteristics of international mergers that promote the sense of cooperation, and is applied to management positions during composition of management boards, while making decision on new investments, or when choosing the location of a headquarters (Olie, 1990).

Cartwright & Cooper (1990) compare a merger to highly emotional personal relationships, following the concept of Levinson (1970) of comparing a merger to a marriage. They refer to five stages of a merger process distinguished by Jick (1979). These are: the courtship, the marriage, the honeymoon, the establishment of marital allegiance, and interdependence.

Larsson & Finkelstein (1999) present an overview of theoretical inputs into mergers and acquisitions from different perspectives. By analyzing a wide spectrum of available research they summarized that the area of merger and acquisitions is presented in the literature within five main research streams, i.e., strategic management, where the mergers are presented as a diversification (growth) strategy; economics, focusing on economies of scale, market power, motives for merger; finance, emphasizing the stock-market side of the merger; organizational research, focusing primarily on post-merger activities and relevant issues during it; and human resource management (HRM), highlighting psychological issues and communication.

### 2.1.2 Importance of PMI in mergers

Since the era of merger and acquisitions (M&A) started in the nineteenth century it is presented in the literature as regularly repeatable merger waves or phases. Until today five merger waves are recognized and the sixth wave has started\(^8\), each of those are different in terms of strategic motivations and integration demands (Jansen, Picot, & Schiereck, 2001). The need for integration has become even more intense as mergers have increasingly moved away from unrelated conglomerate mergers to related and horizontal ones (Hopkins, 2008).

The subject of integration was of hardly any importance in first waves, as integration competence was not the decisive factor for the success of a transaction (Jansen, 2006). This resulted in today’s somewhat limited literature basis on post-merger integration

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\(^8\) According to Shimizu, Hitt, Vaidyanath, & Pisano (2004) the fifth merger wave took place in the decade of 1990s.
activities. According to Quah & Young (2005) there is an agreement in the literature that integration is an interactive and gradualist process in which both sides learn to work together and cooperate in the transfer of strategic capabilities (Haspeslagh & Jemison, 1991). It is a difficult process and must be assisted by a sense of parity and common management programs, tasks, and goals (Olie, 1990) that can greatly magnify a deal’s chances of success (Carr, Elton, Rovit, & Vestring, 2004). Integration is required not only on the hard level, encompassing the integration of operations, systems and procedures but also it requires a consideration of those hard factors in relation to the soft side of two organizations.

This will not only aid an effective integration but will also help to create a strong new organizational culture for day-to-day business.

The extension of the integration and its scope, though, often depends on the motives behind the merger – objectives, increasing the market share, increasing shareholder value, size of merging partners and many others. Therefore it is important to determine the degree of integration. For example, deeper and more profound integration is needed if the reason for merger is to derive synergies in marketing or production (Shrivastava, 1986) in contrary to the merger aimed in increasing the size of the company, where simple one-area (e.g., accounting) integration would be sufficient. In the proposed framework by Napier (1989) a certain merger type affects the level of changes taking place on people level. Within this framework three types of mergers are distinguished, i.e.:

9 Depending on the need of strategic interdependence and organizational autonomy during integration HAspeslagh & Jemison (1991) developed a framework, according to which four integration strategies are possible: preservation, absorption, symbiosis, and holding.

10 Napier (1989) distinguishes two groups of motives: financial (or value maximizing) and managerial (or non-value maximizing) motives. Financial motives are key when the main merger objective is to increase shareholder’s value, through economies of scale or scope, applying knowledge and skills from one company into other, increasing control over the other company (target). Managerial motives relate to mergers aimed more in strategic reasons, such as increasing sales, management prestige, reducing uncertainty in the company’s external environment.

11 As an example the Du Pont-Conoco is a classic example of the integration problems faced when both companies were very large (Shrivastava, 1986).

12 Extension, collaborative and redesign merger types differ from those related to strategic objectives of a merger (vertical, horizontal, concentric, conglomerate).
(1) *extension mergers* take place when an acquirer does not really change the other party (*hands off* policy). The impact on personnel is low and therefore there will be a little change in personnel policy;

(2) *collaborative mergers*, when companies join to generate profits to both or to one party, based on blending major operation and managerial functions, i.e., firm’s name, geographical location, staff operations (*synergy merger*); or based on exchange of skills, e.g., technological (*exchange merger*). In terms of personnel practices the changes might be significant in both companies. In case of synergy merger, new practices and policies must be developed out of the existing ones, and in the event of exchange merger one party will adapt policies from the other one.

(3) *redesign mergers* take place when both parties operate in related business areas and one party wants to gain control over the other party. Therefore on the personnel level (and other levels) a redesigned company will adopt practices, procedures, policies of the other party.

These three merger types suggest the most appropriate integration degree that merger parties should reach in order to succeed, suggesting as well how personnel practices might be affected.

Chronologically, post-merger integration\(^{13}\) is a final phase of each merger or acquisition transaction. As an example, the figure 3 below illustrates graphically phases of such project.

**Figure 3: Phases of M&A process**

![Phases of M&A process](image)


Additionally, Wöhler & Cumpelik (2006) understand the process of M&A by splitting the preparation phase into *strategy* and *screening*, as shown in the figure 4.

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\(^{13}\) In some sources also defined as a post-merger management, PMM (Wirtz, 2006).
Lauser (2010) by comparing organizations to complex adaptive systems (CASs)\(^{14}\), presents the PMI process as a sequence of three stages: forming and organizing, transforming and integrating, and performing\(^{15}\):

1. **Forming and organizing** stage consists of the pre-merger and the phase immediately after the merger is announced. Organization finds itself uncertain and questioned by its stakeholders, due to identification of new company mission, structure, brand and market strategy, integration action plan, and decisions on company’s location and facilities;

2. **Transforming and integrating** corresponds with actual implementation of various strategies and actions. At this stage tensions arise as there are positive and negative feedbacks, formal and informal structures exist and management’s main task is to demonstrate the evaluation of the success or failure of integration activities;

3. **Performing** stage is characterized by established new organizational culture, beliefs and values, and completed sense-making process.

Companies frequently do not give serious consideration to integration until well after a deal is announced or even closed (Carr, Elton, Rovit, & Vestring, 2004). There is constant pressure on management during the negotiation phase to consummate a deal quickly, thus resulting in significantly less attention being paid to post-merger integration issues, which, in fact, should be addressed early during merger negotiations (De Noble, Gustafson, & Hergert, 1988; Jemison & Sitkin, 1986; Searby, 1969).

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\(^{14}\) Complex Adaptive Systems (CASs) refer to complexity theory that suggests that organizations which are far-from-equilibrium (at the edge of chaos), unpredictable, uncertain and demonstrate non-linear behavior (Lauser, 2010). This state however creates an opportunity to create new ideas and solutions.

\(^{15}\) Conclusions based on results of workshop discussion with integration specialists as participants. The goal of the project was to facilitate an exchange of experience by the participants and to investigate the core activities of the PMI process and the roles which effective leaders play in this process (Lauser, 2010).
Also from a financial point of view, it is because companies neglect a post-merger integration and focus more on cost synergies, they lose their revenue momentum which, in the end, hurts companies’ market performance (Bekier, Bogardus, & Oldham, 2001). The ability to protect revenue, generate growth, and to create added value after a merger also defines the success of a merger (Bekier et al., 2001; Quah & Young, 2005).

Industry observers have identified post-merger integration as critical to long-term merger success (De Noble et al., 1988; Olie, 1990). Hopkins (2008) points out that care should be given to two elements: right strategy and careful post-merger integration that increase chances for merger success. Also Epstein (2005) identifies post-merger integration as one of his six determinants of merger success. A survey of more than 200 European chief executives shows that the *ability to integrate the new company* was ranked as the most important factor for acquisition success (Cartwright & Cooper, 1993).

Various authors claim that mergers fail mainly because of incompetent or incorrect execution of integration processes, proving that PMI is *the* most critical stage of any merger deal and it may be the most important cause of failure among cross-border mergers (Hopkins, 2008; Lynch & Lind, 2002; Schmidt, Urlichs, & Richter, 2008). This conclusion supports A.T. Kearney Global PMI survey, according to which 53 percent of its respondents named the post-merger integration as the phase which bears the greatest failure risk (Habeck, Kröger, & Träm, 2000). Although the reasons for post-merger integration failure mainly include inappropriate pre-merger analysis and planning or poor choice of merger partner, there are also other conditions that might have an effect on the merger outcome, such as constantly changing market conditions, technological developments, and taxes and legal policy that especially matter in the event of international mergers (Olie, 1990). Therefore, although the post-merger integration is already planned at the pre-merger phase, even the proper pre-merger planning does not guarantee a good execution of the integration process (Epstein, 2005). A number of other scholars emphasize the importance of *fit* between merger partners and a *careful integration management* as key conditions for merger success (Epstein, 2005; Schmidt et al., 2008). Actually, the term *fit* appears already in the pre-merger phase that aims in choosing a merger partner and seeking to maximize the fit between the merger parties (Schmidt et al., 2008). Described in the literature, fit (strategic fit, organizational fit, and cultural fit) is an important precondition for post-merger integration success (Schmidt et al., 2008).
2.2 Research gap

A review of the literature shows that the research on M&A and the PMI process is still very fragmented and different schools of thought, such as strategy school, organizational behavior school, process school and resource-based view provide only limited explanatory contributions (Lauser & Peters, 2008; Schewe, Lohre, & Ortwein, 2007). Cartwright & Schoenberg (2006) summarized in their special research the recent advances and future opportunities of M&A, and concluded that empirical evidences show no significant decrease in failure rate of M&A, largely due to incomplete and limited research progress (Lauser & Peters, 2008).

"Academic research and literature on M&A has been limited and too fragmented to provide a comprehensive and integrative explanation of the sources of problems in M&A integration and strategies to effectively manage the problems" (Seo & Hill, 2005: 423). Also, "although researches of M&A have used several different theoretical perspectives to examine the M&A integration process, the lack of an integrated theoretical framework has made any systematic empirical examination of the integration process difficult" (2005: 438).

"In spite of a large body of literature on the subject, we still know very little about approaches that lead to success during organizational change as prompted by a merger" (Kavanagh & Ashkanasy, 2006: 83).

Also, "the focus on the human side of mergers process promises to provide important insights into understanding the challenges faced by mergers. However, most of the literature on mergers focusing on human side has not been theory driven (Hogan & Overmyer-Day, 1994). Instead, most researchers have studied mergers processes retrospectively and inductively, often based on a single case study, and suggested the finding as generalizable prescriptions for the effective management of integration processes [...]. Alternatively, other authors focused on a single or a few causes of mergers success, examining "a simple relationship between some universally important variable, such as communication or culture, and success" (Hogan & Overmyer-Day, 1994, p. 274). As a result, countless mergers-related practices have been prescribed for successful organizational combination after a merger, but without sound theoretical and empirical basis" (Seo & Hill, 2005: 423-424).

Morosini (1998) noticed that in terms of post-merger integration and performance the research legacy is mainly focused around strategic and financial issues. Thus the
human aspects, such as leadership, commitment to change, organizational or cultural integration, are not sufficiently nor adequately addressed. There is little theory to guide understanding of the development of organizational integration when two firms merge. Particularly, the aspect like leadership and its role in the M&A implementation process remain to be underexplored despite its importance. Rather the researchers focus on the impact of managerial actions and decisions on the success of M&A (Waldman & Javidan, 2009). Further, although research on post-acquisition activities is limited (Shimizu et al., 2004), and rather fragmented (Child, Falkner, & Pitkethly, 2003), "most attention, indeed, has been given to human resources issues, including HR planning, and downsizing, training, and changes in communication and reward systems. There is remarkably little research into other changes following acquisitions" (Shimizu et al., 2004: 334).

Additionally, Quah & Young (2005) emphasize the lack of research in the area of reducing employee resistance in international acquisitions.

As far as a literature review is concerned, indeed, the area of people integration has been examined in the last years with a special focus, highlighting its important issues. Nevertheless, as much as companies operate under constantly changing conditions and business practices throughout the decades, just as much new research inputs and solutions are needed to overcome the problems and eliminate their sources. This thesis aims in filling the gap by highlighting people management dimensions in terms of post-merger integration, along with focusing on its biggest challenges, problems and their sources.

### 2.3 Role of people-related aspects in PMI change process

There are many different variables that have influence on the success or failure of a merger, such as leadership styles, communication, emotions, human relationships (Lauser & Peters, 2008).

One of the success factors of each merger is mutual understanding among employees, who are coming from two formerly independent and, very often, different corporate or organizational cultures. The higher the degree of understanding, the better common objectives, resource utilization, know-how development, and customer focus are

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Post-merger integration. Problems in people management context.
fulfilled (Pribilla, 2002). No matter how different or similar organizational cultures are, the issue of integration shall be central, as organizational and people-related issues may play a large role in determining the success or failure of PMI and therefore of the merger (Datta, 1991; Galpin & Herndon, 2007; Larson & Finkelstein 1999; Vogel, 2002). It is recommended to pay more attention to people issues first and to deal with the work-related integration activities later, since people side of mergers is frequently neglected by managers intent on doing the deal and realizing operational synergies (Birkinshaw, Bresman, & Hakanson, 2000).

When it comes to a people dimension or employee behavior, a particular attention is given to the classic force-field theory by Lewin (1951), suggesting that all behaviors are the result of equilibrium between two sets of opposing forces – driving forces (pushing for change) and restraining forces (maintaining a status quo) (Quah & Young, 2005). According to this theory, the more one side pushes, the more the other side resists, resulting in no change. Employee resistance problems are highlighted already in several researches. Research conducted by Quah & Young (2005) shows that with clear communication the resistance can be considerably decreased and positive behavior17 among employees can be created, although, only in the first phase of post-merger process. This phase is featured mainly by set of certain symptoms, which all together create of what is called the post-merger syndrome. It is characterized, on one hand, by fight-fight responses, a resistance to change, hostile attitude, focus on personal security, and culture shock; and, on the other hand, by lack of communication between top management and intense conflicts on organizational levels (Olie, 1990). Post-merger syndrome, existing in both domestic and international mergers, belongs to the major problems that arise on people level during post-merger integration, along with cultural differences and resistance to change (Olie, 1990).

Another important factor that influences the employee behavior during integration is the information, or rather a lack of it, whether before or after the merger. Employees without clear information on merger activity become discouraged and uncertain, trying to search for information on their own. This uncertainty results in job dissatisfaction, unproductive behavior, stress and even acts of sabotage (Cartwright & Coopers, 1990). As a result, employees focus on keeping their jobs

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17 Olie (1990) perceives a positive attitude among organizational members as an important predictor, having a profound influence on merger’s success.
(or even start looking for other jobs) rather than doing their job. This results in loss of a company’s customers, as happened in case of the merger between Hewlett Packard and Compaq (Nguyen & Kleiner, 2003). Thus the challenge is to keep employee focus on carrying on the base business and not on the merger process (Carr et al., 2004).

Cartwright & Cooper (1990) describe so called merger stressors, reasons for employee concern and ambiguity, affecting organizational performance and the quality of work life. Merger stressors are included in the integrative framework by Seo & Hill (2005) and are described in the following chapters. Moreover, culture shock and lack of communication may also be contributors to the stressful working environment. All of those merger stressors have their reflection in later post-merger syndrome. Motivated staff plays a key role in a successful transaction (Maire & Collerette, 2010; Vogel, 2002). A particular focus is given to certain management aspects (i.e., management style, incentive systems, human resources development, communication) that increase employee motivation and strengthen the working environment. Those aspects are also included, among others, in people management profile of the 4P Model of Glocal Management of Human Resources and will be discussed later in this thesis.

Addressing to employees important to them issues (e.g., reward, security, development), providing them with inspirational leadership and open communication result in trustful working environment, where employees are motivated and feel stable, without a feeling of ambiguity or anxiety.

The 6S Watch List Model (Maire & Collerette, 2010) indicates the relevance of social attention (people, culture, values) and communication during post-merger integration. It emphasizes a need for addressing people’s concerns, motivating people, identifying and dealing with cultural differences and communicating across the merged organization about integration progress as well as portraying many issues to be monitored during the PMI process. It encompasses: strategy (preparation, decision, allocation, endorsement), social issues and communication (people, culture, values, communication), structure and organization (organizational structure, method, systems, processes), speed and change management (pressure, time, space, pace), success (sales, results, progress reviews), and surroundings (customers, client relationship management, products, services).

As far as organizational culture is concerned, it is the character or personality of a business that differentiates a business from all others (Pribilla, 2002). It contains visible elements (rituals, symbols, language, organizational culture, taboos, hierarchy,
procedures), and *invisible* elements (norms, attitudes, thought patterns, achievements, values, socialization). It is also characterized by *symbols* (i.e., words, gestures, objects, manner of speaking, dress habits), *rituals* (social norms and rules obeyed in certain environments), and *heroes* (role models, valued in organization for their certain characteristics) (Olie, 1990). Organizational culture provides an orientation for its employees and defines their employee identity, their sense of *who we are* (Pribilla, 2002). This becomes especially important after the announcement of a merger, when employees feel like they are "*losing their identity*."\(^\text{18}\) (2002: 322).

### 2.4 Theoretical framework

#### 2.4.1 The 4P Model of Glocal Management of Human Resources

Shrivastava’s (1986) managerial/sociocultural integration, or what Vogel (2002) defines as *people* and *cultural* integration is the focus of the present research. The author of this thesis defines it as a *people management* level and refers to the 4P Model of Glocal Management of Human Resources (Hilb, 2009) and its *people management in a TNC*\(^\text{19}\) profile in particular.

The 4P Model presented below as figure 5 illustrates how human resources management can add simultaneous and sustainable value to customers, employees, shareholders and the public of transnational (glocal) corporations (Hilb, 2009). A glocal or transnational corporation seeks to achieve both global efficiency and local responsiveness. The degree to which organization refers to global efficiency and local responsiveness is what distinguishes its glocal, global or multidomestic nature. The glocal company combines both close global coordination and capacity for local flexibility (Tuschke, 2003).

This research refers to the 4P Model in a sense that the thesis will discuss aspects, included in people management level of 4P Model, but in terms of post-merger integration only. The model starts from the broadest spectrum of external factors influencing the TNC, consecutively narrowing down its dimensions.

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\(^\text{18}\) Part of the *merger syndrome*, Marks & Marvis (1992: 70)

\(^\text{19}\) Transnational corporation
Figure 5: The 4P Model of Glocal Management of Human Resources

Source: simplified illustration of The 4P Model of Glocal Management of Human Resources (Hilb, 2009).

The people management level of the 4P Model consists of two broad management areas:

(1) **performance management**, i.e., leadership, communication, industrial relations and quality of work life; and

(2) **personnel management**, i.e., employment, appraisal, reward, and development.

As far as personnel management is concerned, its **employment** aspect will refer to the phenomenon of **retention of key employees** during post-merger integration, whereas the **development** area will be included into a somewhat broader area of **succession planning**.

### 2.4.2 Stressors - sources of problems in PMI

Seo & Hill (2005) integrate certain theories on how employees respond to merger-related organizational change into framework in order to present sources of problems that can emerge in different stages of PMI. Concerned theories are: anxiety theory, social identity theory, acculturation theory, role conflict theory, job characteristics...
theory, and organizational justice theory. Each theory focuses on particular factors, merger stressors, that influence employees’ responses to change in the consecutive stages. As far as the cultural aspect is concerned, it is not the subject of the present research, and therefore the acculturation theory will remain excluded.

In order to build their integrative framework, Seo & Hill (2005) conceptualized the PMI process in several stages, identifying critical sources of problems (stressors) in each stage:

1. **Premerger** stage, characterized by discussions among top managers and executives concerning the possible merger and emerging of rumors among employees. In this stage the most important is anxiety theory. Speculations and rumors, invented from information leaks about a possible merger, create a feeling among employees of uncertainty, threat, loss of control, negative emotions and concern about the impact of the merger on their jobs and careers (Seo & Hill, 2005). Reactions include low productivity, self-centered behavior and lack of motivation.

2. **Initial planning and formal combination** stage, begins after the merger has been announced and ends once a new organization has been created. Defining a new vision, new goals, joint teams and new organizational structure are the key issues. The anxiety theory continues to exert influence but additional social identity and organizational justice theories may apply. Stressors concerning identity issues may occur. The formal organizational entities cease to exist and the feeling of working for own group disappeared, leading to loss of old organizational, professional and work group identities. Although the goal of a merger is creating a new corporate identity, each of the party tends to think in terms of their own entity (Olie, 1990). Denial and refusal of change are common characteristics.

As a result of interactions between members of both organizations through joint teams, intergroup biases and group conflicts are easily developed, especially when groups decide on a leader of the newly combined department. Competition also emerges as members of the combining organizations engage in intergroup rivalry and try to favor their own group in the new organization (Seo & Hill, 2005).

Perceived unfairness is another stressor that occurs as a result of employees dissatisfaction concerning their reassignment or displacement (Schweiger, Ivancevich & Power, 1987). This causes negative emotions among employees and psychological...
blockage followed by negative impact on employees’ effectiveness and commitment. The risk of losing key talent therefore increases.

(3) **Operational combination** stage, the actual integration of organizational functions and operations. Interactions between the members of combined organizations take place and employees are encouraged to learn new ways of doing things, meet new performance standards, and adopt new values.

Certain additional stressors of other theories (*role conflict theory* and *job characteristics theory*) may also affect employee behavior and reactions. As employee interaction increases throughout the entire organization and day to day operations, *intergroup conflicts* may reach the highest level (Marks & Mirvis, 1992). This leads to lack of employee cooperation or development of a strong *us versus them* mentality. Various decisions made to determine employee new job and role assignments contribute to perceived unfairness. Psychological withdrawal is even stronger and influences employees’ commitment to the combined organization and their job satisfaction. Furthermore, new stressors such as *role ambiguity* and *role conflict* emerge as many aspects of employee jobs (tasks, supervisors, responsibilities and expectations) are changed (Marks & Mirvis, 1992; Seo & Hill, 2005). Also, employees might be required to perform additional combined operational tasks that may cause a feeling of overload and stress. A stressor such as role conflict may also concern areas beyond job-related roles as employees are concerned about how changes in their job would affect their family life (Schweiger et al., 1987; Seo & Hill, 2005).

As a result of job reassignments, employee new job characteristics and job environments may be perceived as worse than their previous job settings leading to reduced commitment and weaker attachment to the new organization, and increases the likelihood of people leaving the organization. The feeling of uncertainty and anxiety about their new tasks remains crucial in this stage (Marks & Mirvis, 1992).

(4) **Stabilization** stage, when operational integration is completed and day to day business is stabilized.

Certain stressors mentioned earlier may disappear while others might still remain at this stage. For example, if an employee's new job characteristics are perceived as worse than the previous assignment, it may have a negative effect on job satisfaction and commitment (Seo & Hill, 2005).

The table 2 below illustrates the described framework by Seo & Hill (2005) and explains how the factors (stressors) of certain theories might predict employee
responses to PMI. It excludes, however, the acculturation aspect as cultural issues are not the subject of this thesis. The framework refers to the combination process of a horizontal or a market merger, which requires the highest level of integration (Shrivastava, 1986).

Table 2: Effects of different sources of problems in integration stages of M&A.

<table>
<thead>
<tr>
<th>Factor / Stressor</th>
<th>Underlying Theory</th>
<th>Premerger</th>
<th>Initial Planning and Formal Combination</th>
<th>Operational Combination</th>
<th>Stabilization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uncertainty</td>
<td>Anxiety theory</td>
<td>Medium-large</td>
<td>Large-medium</td>
<td>Small</td>
<td>Small</td>
</tr>
<tr>
<td>Loss of identity</td>
<td>Social identity theory</td>
<td>Small</td>
<td>Large-medium</td>
<td>Medium-small</td>
<td>Small</td>
</tr>
<tr>
<td>Intergroup conflict</td>
<td>Social identity theory</td>
<td>Small</td>
<td>Medium-large</td>
<td>Large-medium</td>
<td>Small</td>
</tr>
<tr>
<td>Perceived unfairness</td>
<td>Organizational justice theory</td>
<td>Small</td>
<td>Medium-large</td>
<td>Medium</td>
<td>Medium-small</td>
</tr>
<tr>
<td>Job environment changes</td>
<td>Job characteristics theory</td>
<td>Small</td>
<td>Small</td>
<td>Medium-large</td>
<td>Medium-small</td>
</tr>
<tr>
<td>Role conflict and ambiguity</td>
<td>Role conflict theory</td>
<td>Small</td>
<td>Small</td>
<td>Large-medium</td>
<td>Small</td>
</tr>
<tr>
<td>Prolonged uncertainty</td>
<td>Anxiety theory</td>
<td>Small</td>
<td>Small</td>
<td>Small-medium</td>
<td>Small or high</td>
</tr>
</tbody>
</table>

Source: Seo & Hill (2005), p. 434

This thesis refers to stressors of the above described framework in order to build its own theoretical concept for the research. It also extends this framework by identifying concrete problems that are caused by stressors of the theories portrayed above as well as highlighting specific tools aimed at addressing those problems. Figure 6 below exhibits the extended theoretical framework of this thesis, based on the 4P Model and integrative framework by Seo & Hill (2005) described above.
Figure 6: Theoretical framework

Performance Management
  - Leadership
  - Communication
  - Industrial relations
  - Quality of work life

Personnel Management
  - Retention of key employees
  - Appraisal
  - Reward
  - Succession planning

Stressors / Sources of problems
  - Uncertainty
  - Loss of identity
  - Intergroup conflict
  - Perceived unfairness
  - Job environment changes
  - Role conflict and ambiguity

Identification of problems and stressors

Identification of tools

Conclusions and recommendations

Source: own
2.5 Performance Management

2.5.1 Comparison of human resources practices

Human resources (HR) management is understood as everything that is managed around employees in each phase of M&A, by managers as well as by the HR organization (Pribilla, 2002). It includes HR functions, HR processes, HR systems, and HR tools (2002: 319).

Child et al. describe human resources management as "the range of policies and practices used to facilitate integration, commitment, flexibility, and the quality of working life, as well as meeting broader business goals such as changing organizational values, structure, productivity, and delivery mechanisms" (2003: 166)\(^2\). The principal practices concern leadership, communication, industrial relations, quality of work life, performance appraisals, reward and compensation policies, retention of key employees, and succession planning. Child et al. (2003) refer to several authors involved in international comparison of human resource practices and conclude that at the policy level the USA is strong in its support of training and career development, whereas Germany tends to provide a slow support in career development. Furthermore, their study shows interesting significant similarities in certain post-acquisition human resources practices across various nations. These are: tendency to performance-related pay (PRP), increase in training, and team-based product development.

The table 3 below exhibits those results (Child et al., 2003).

**Table 3: Post-acquisition trends in HRM practice**

<table>
<thead>
<tr>
<th>HR practice</th>
<th>USA</th>
<th>Japan</th>
<th>Germany</th>
<th>France</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay</td>
<td>Performance related</td>
<td>PRP growing</td>
<td>PRP growing</td>
<td>PRP growing</td>
<td>PRP growing</td>
</tr>
<tr>
<td>Recruitment</td>
<td>Short-term</td>
<td>Lifetime</td>
<td>Long-term</td>
<td>French-long, local-less so</td>
<td>Less short term than USA</td>
</tr>
<tr>
<td>Training</td>
<td>High; on-course</td>
<td>On the job</td>
<td>Technical bias</td>
<td>To a ceiling</td>
<td>Increased;</td>
</tr>
</tbody>
</table>

\(^2\) See also Brewster & Tyson (1991).
Companies of different nationalities apply the same human resources practices in post-merger integration, though to a different extent (Child et al., 2003). Japanese companies seem to be more long-term oriented, with less managerial job rotation, than companies of other nationalities. They tend to fit their human resource policies to local context, thus their attitudes are more similar to that of the British. The human resources practices in USA are short-term on recruitment and result-oriented, remaining hire and fire principle. In terms of promotion, French companies prefer to rely on formal qualifications as their main criteria; German companies look for technical expertise and Japanese favor seniority. The application of human resource practices and polices is a very conscious integration tool for both Americans and British. In case of French companies they prefer to use their practices in a modern way with regard to performance-related pay, career development without losing their French identity. Japanese apply their policies in a most subtle way, using it to transfer their business philosophy, including concern for people, long-term approach to business and considered attitude to promotion issues. Germans on the other hand use their human resource policies in a less clear and purposeful way and therefore arguably fail to be effective in their integration efforts (Child et al., 2003).
2.5.2 Leadership

2.5.2.1 Overview of existed concepts

Mergers introduce a set of complex leadership challenges including, among others, nomination of co-chairman, co-chief executive, creation of a new name of the merged organization and location of its corporate headquarters (Piekkari et al., 2005).

Lauser & Peters (2008) summarize in their research how that leadership theories were developed over the years. In the beginning *trait theories* were dominant, then *behavior theory* emerged, emphasizing a leader’s ability to influence people. Following the *general systems theory* articulating the systems searching for equilibrium emerged; *traditional leadership* theory views the world in a mechanistic way; *transformational and charismatic leadership theories* stress visionary capacity of leaders and were perceived to be renewal of trait theories. Moreover, when the learning organization emerged, the leadership theories became more process-oriented and team-based.

The post-merger integration is a process characterized by instability and is largely unpredictable. In order to use this *edge of chaos* in a favorable fashion, leaders need to use this potential to establish or create something new, which in the event of PMI is not being used (Lauser & Peters, 2008). Under the pressure of quick results, leaders do not allow self-organization to happen, trying instead to increase their control and establish orders for employees (Cartwright & Cooper, 1996; Kavanagh & Ashkanasy, 2006; Lauser & Peters, 2008).

In their research Lauser & Peters (2008) demonstrate the relevance and application of certain new leadership concepts from a complexity perspective for specific PMI situations, articulating *complexity leadership theory* (Uhl-Bien, Marion, & McKelvey, 2007), *leadership for emergence* (Plowman & Duchon, 2007) and an *integrative leadership model* (Panzar, Hazy, McKelvey, & Schwandt, 2007).

As far as *complexity leadership theory* is concerned, it consists of three leadership types, namely adaptive leadership, enabling leadership and administrative leadership (Uhl-Bien et al., 2007). In a PMI situation, an *adaptive leadership* is a product of emergent dynamics and refers to change that occurs from interaction of several agents (Lauser & Peters, 2008). *Enabling leadership* implies that leaders should provide employees with a possibility to participate in the process of establishing a new organization, to engage people in change process by facilitating events or workshops (Lauser & Peters, 2008). *Administrative leadership* reflects more formal role. In PMI situation this type of leadership defines leaders to be responsible for more formal,
managerial tasks such as definition of the organizational strategy or resource allocation.

Concerning another leadership concept, *leadership for emergence*, Plowman & Duchon (2007) list its four features: distributing intelligence, fostering conversation, sustaining tension and looking for patterns. In PMI all of these properties are important. During PMI there is much knowledge and different kinds of information flowing within a new organization and leaders should make sure information is properly communicated and utilized in order to let organizational intelligence evolve. Fostering conversation during PMI means the establishment of new connections between employees (Lauser & Peters, 2008). Sustained tension occurs in PMI as a result of conflicts or competition for the same position or unclear definition of responsibilities. This tension can lead to the formation of new tasks and newly designed jobs. During PMI leaders face another challenge of recognizing emerging patterns, especially when two companies merge and leadership is not familiar with background of all employees (Lauser & Peters, 2008).

An *integrative leadership* concept is perceived as a dynamic process integrating three leadership forms: formal, emergent and shared, which coexist and co-evolve in PMI process (Lauser & Peters, 2008: 206; Panzar et al., 2007).

Major contribution of complexity leadership theory is that it combines traditional leadership concepts with new approaches, giving leaders bigger choices of behavior, especially in the event of combining of both complexity reduction\(^{21}\) and complexity absorption\(^{22}\) (Lauser & Peters, 2008). These new concepts seem to be highly important for PMI as they enable the use of the potential of self-organization at the *edge of chaos* in order to create new order in the merged organization (Lauser & Peters, 2008). According to complexity theory, a leader’s effectiveness is achieved by "*fostering connectivity and interactive conditions and cultivating interactions among individuals, groups and departments*" (2008: 204). Also the involvement of employees "*increases connectivity and its potential feedback loops that cause self-organization and co-evolution to happen*" (2008: 204).

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\(^{21}\) Complexity reduction is an approach that views the organization in an organized and simpler way. Accordingly, "*leaders believe that the complexity can be best dealt by reduction, bringing the system back into an equilibrium position by using traditional management tools*" (Lauser & Peters, 2008: 204).

\(^{22}\) Complexity absorption refers to managerial responses that create "*different options and risk-hedging strategies*" (2008: 204), and is more in line with CAS characteristics.
2.5.2.2 Leadership in PMI change process

Leadership is the process of motivating people to change and the art of mobilizing others to want to struggle for shared aspirations (Kavanagh & Ashkanasy, 2006). During times of change it is important that leaders of an organization create an atmosphere of psychological safety for all employees, allowing employees to participate in the process, providing a clear picture or vision of the future, sharing information, demonstrating commitment to the change, and informing people what is exactly expected of them (Covin et al., 1997; Kavanagh & Ashkanasy, 2006; Mitleton-Kelly, 2006). This change can be accomplished successfully only if leader is well trained and skilled to be an agent of change, and implements own unique vision along with a set of specific actions designed for that purpose (Kavanagh & Ashkanasy, 2006).

In terms of post-merger integration a change leader is a person who can face complex situations, bridge gaps in culture and languages, connect people and whose main responsibility is to effectively accomplish a post-merger integration. This person is referred to as an integration manager, or integration head (Ashkenas & Francis, 2000; Lauser, 2010; Meckl, 2004). Encountered for the first time during acquisitions of GE Capital in 1990s, the integration manager became an essential part of a number of significant mergers ever since. Leaders of post-merger integration always face multiple challenges, above all, in dealing with employees, their concerns, stress, lack of motivation, and existing chaos within an organization where everything is uncertain. This role forces the integration manager to act in an entrepreneurial way, to take self initiative as well as make independent judgments, while identifying critical areas of the entire integration process (Ashkenas & Francis, 2000).

The post-merger situation builds up a high tension among employees. Conflicts are caused mainly by uncertainty and power struggles, resulting in a certain edge of chaos, described earlier. Common values and beliefs of the new organization have not yet been established and employees keep identifying themselves with their old culture. This adjustment may take many years until a sense of new common organizational culture will emerge. Leaders are needed to guide this new reality and to not only handle uncertainty among employees but also to connect and network them within the one organization, to establish contacts with suppliers and customers, and to shape the whole infrastructure of this change process (Lauser, 2010). That is why the leader, or integration manager, ought to be experienced and possess a deep knowledge of the merged companies, industry, business units, staff assignments, and worldwide
locations. This gives a structured overview of how the integration should happen (Ashkenas & Francis, 2000). The integration manager needs to select carefully the method or approach for managing the merger and develop a new culture following the merger, identifying new patterns, developing partnerships and networks, establishing effective channels of communication, leading the process in a positive manner. Above all, the integration manager realizes that change is an emotive process and that people need to be changed by justifying the reasons for them personally to move on (Kavanagh & Ashkanasy, 2006; Mitleton-Kelly, 2006). Thus, an integration manager has to be able to win trust among colleagues and appreciate the emotional and cultural sensibilities involved, while being empathetic enough if employees of various management levels are concerned or irritated by the present unstable situation (Ashkenas & Francis, 2000).

As far as leading an integration process requires project management and organizational skills, leaders must help the merged companies to identify rules and structures acceptable by employees of both organizations and to steer the integration process by setting the right conditions for change to happen. Thus leaders must be able to convey a deep self-confidence with personal style and skills (Ashkenas & Francis, 2000).

The role of leader changes during integration process. At the pre-merger phase and at the beginning of the merger, leaders are the ones responsible for developing and formulating the vision for the new organization, developing the initial company strategies, and combining traditional and new management behaviors. These tasks are needed so that they can largely influence the future of the organization.

The leader’s behavior and style of handling situations like mergers are focal points for employees on how to cope with a change and their post-merger attitudes (Covin et al., 1997). Research by Covin et al. (1997) describes two kinds of approaches: power-influence approach, based on leader’s possession of power and its usage over followers, and behavior approach, articulating leader’s actions, task accomplishment (initiating structure) and maintenance of good relations with subordinates (consideration), instead of just exercising a leader’s power, which in the event of a merger is critical enough due to the high level of employees uncertainty. Studies show that mergers may require higher levels of leader-initiated structure than other types of change, due to its complexity and following workload (Covin et al., 1997).
As far as leader-initiated structure is concerned the results are mixed – subordinates’ satisfaction varies, though higher satisfaction is noticeable while reporting to a considerate leader, rather than to an inconsiderate one (Covin et al., 1997).

Mumford & Van Doorn (2001) provide an extended comparison of four forms of leadership, i.e., transactional, transformational, charismatic and pragmatic, articulating a set of leader features and characteristics in different leadership forms. These leadership types are presented in table 4 below in a simplified form.

**Table 4: Comparison of leadership forms**

<table>
<thead>
<tr>
<th>Interactional style</th>
<th>Transactional</th>
<th>Transformational</th>
<th>Charismatic (recommended for PMI)</th>
<th>Pragmatic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership approach</td>
<td>Depersonalized, <em>laissez-faire</em></td>
<td>Change agent role; flexibility</td>
<td>Inspirational, appeal to masses, interpersonal influence; <em>heroic leadership</em></td>
<td>Leading behind the scenes</td>
</tr>
<tr>
<td>Persuasion, negotiation</td>
<td>Self-preservation, <em>contingent reward</em>, incentive appeals</td>
<td>Personalized influence and empowerment techniques; confidence in subordinates, participative negotiation</td>
<td>Personal level to link majority concerns, subordinate trust building through leader’s self confidence; symbolic and rhetorical speaking style</td>
<td>Depersonalized influence through objective demonstration and appeal to economic concerns; negotiation through membership and vested interest</td>
</tr>
<tr>
<td>Interpersonal, social relationships</td>
<td>Contact built by day-to-day transactions</td>
<td>Focus on specific change agents, key managers</td>
<td>Relationships are multiple party and vision integrated</td>
<td>Networking with targeted elites; management of elite conflict</td>
</tr>
<tr>
<td>Decision-making process</td>
<td>Top-down decisions</td>
<td>Collective and participative</td>
<td>Decisions based on vision and consensus around vision</td>
<td>Analytical, practical problem solving; development of viable solutions; tactically oriented;</td>
</tr>
<tr>
<td>Influence</td>
<td>Values</td>
<td>Vision</td>
<td>Goals</td>
<td>Control</td>
</tr>
<tr>
<td>-----------</td>
<td>--------</td>
<td>--------</td>
<td>-------</td>
<td>---------</td>
</tr>
<tr>
<td>Power</td>
<td>Hierarchical</td>
<td>Collective organizational power; role modeling</td>
<td>Articulation of evocative vision; follower loyalty vis-à-vis identification; passion and self-sacrifice</td>
<td>Appeal to reason and joint interests (e.g., social projects); ability to manipulate situational contingencies</td>
</tr>
<tr>
<td>Values</td>
<td>Reinforcement of values such as productivity and efficiency</td>
<td>Alignment of personal values of followers to goals of organization; &quot;value centered&quot;</td>
<td>Increase of new values though articulation of a vision</td>
<td>Appeal to existing values, appeal to objective needs of groups</td>
</tr>
<tr>
<td>Vision</td>
<td>Tasks and duties related to current production needs</td>
<td>Futuristic vision to transform and change organization; constant alignment of subordinates goals to organizational goals</td>
<td>Integrative vision only loosely linked to specific goals; affective adherence to an idealized image</td>
<td>Social utility based on local need; entrepreneurial opportunity seeking in specific situations</td>
</tr>
<tr>
<td>Goals</td>
<td>Maximize profits and efficiency</td>
<td>Bring about effective change</td>
<td>Articulate and propagate vision</td>
<td>Maximize benefits at low costs through collective effort</td>
</tr>
<tr>
<td>Control</td>
<td>Exchange relationships; &quot;contingent reward&quot;</td>
<td>Control through commitment, trust, and empowerment</td>
<td>Most stable control during crisis; control through vision; follower identification</td>
<td>Control through elites and sociotechnical structure; accountability through personal investments</td>
</tr>
<tr>
<td>Motivation, monitoring, and development</td>
<td>Reward based; rule driven; Development of change agents; role modeling; participative responsibilities; coaching and mentoring</td>
<td>Need for individual’s social identity; inspirational motivation; high expectations</td>
<td>Motivation through satisfaction of practical needs; project-based mentoring and development</td>
<td></td>
</tr>
<tr>
<td>Subordinate leader</td>
<td>Formal; distant and detached</td>
<td>Personal development and</td>
<td>Strong affective relationship to</td>
<td>Distant; only indirect targeted</td>
</tr>
</tbody>
</table>

Post-merger integration. Problems in people management context.
<table>
<thead>
<tr>
<th>Relationships</th>
<th>Relationship; active/passive management by exception</th>
<th>Identification; promote intellectual stimulation</th>
<th>Leader; spiritual or hero worshipping; no substitutes for leader</th>
<th>Relationships with elites to effect change;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Feedback and development</td>
<td>Periodic feedback based on performance; development focuses on common performance problems</td>
<td>Continuous feedback to and team leaders; individualized consideration; development/training for adaptive changes</td>
<td>Feedback based on acceptance of and adherence to vision; development based on role modeling</td>
<td>Feedback in the form of outcomes; development and training though completion of successful projects and social institutionalization</td>
</tr>
<tr>
<td>Organizational and institutional conditions</td>
<td>Stable systems; fixed production; little change; bureaucratic economic-exchange logic</td>
<td>Dynamic and changing environment; institutional reform of vision and goals;</td>
<td>Need for affective debate; crisis intervention ambiguity or conflict in goal paths; different vested interests; unstructured work environment</td>
<td>Best when subordinates are autonomous and knowledgeable; goals well-defined;</td>
</tr>
<tr>
<td>Boundary conditions</td>
<td>Closely monitors resources</td>
<td>Very adaptive; resources and personnel used where needed; technology development</td>
<td>Concentrates resources, personnel, and material to vision embraced by leader; allocation of resources to change status quo</td>
<td>Resources built and maintained by membership investment; group identification during project start ups with future public maintenance; technology innovations</td>
</tr>
</tbody>
</table>


**Transactional** leadership concentrates on technical problem solving, tends to people and organizational issues (Covin et al., 1997), and articulates an exchange of support for reward.

**Pragmatic** leaders, according to Covin et al. (1997), are characterized by far less interest in personal contact and interrelations. They prefer to observe people and social systems in order to identify needs, to analyze situations in order to identify
restrictions and intervention points, and to develop and implement solutions in order to maximize benefit at lowest cost. Pragmatic leaders may transform systems and organizations, but it is unlikely that they will be able to have an impact on people and their beliefs and values, as it must take place during people integration. Thus, pragmatic leadership is suggested to have a limited applicability during mergers and integrations, whereas the charismatic and transformational forms of leadership are more widely applicable (Covin et al., 1997).

The *transformational* leader is concerned with motivating followers, linking their personal values with the goals of the organization. Such leaders will actively engage followers’ personal value systems. A transformational leader serves as a role model to stimulate followers to think about existing methods in new ways and encourage them to challenge their own values, traditions and beliefs (Kavanagh & Ashkanasy, 2006). This form of leadership tends to enhance employee ability to accept change. Two aspects of transformational leadership are essential: charisma and inspiration (Covin et al., 1997). Charisma can be defined as a "*relationship between an individual (leader) and one or more followers based on leader behaviors that engender intense reactions and attributions on the part of followers*" (Waldman & Javidah, 2009: 132). It is also a leader’s ability to arouse pride, faith, and respect and to generate a symbolic power with which employees want to identify (Covin et al., 1997). There is a common view that outstanding leaders go beyond simple performance and have a deep impact on followers and their organizations, including the potential for being a major force of PMI implementation (Waldman & Javidah, 2009).

*Charismatic* leadership largely emphasizes the importance and development of a vision, its ability to integrate various groups by providing them with a sense of identity, and achievement of agreement. They articulate the importance of passion, expressing confidence in followers, thus contact with people on a personal level is critical to them. Thus the charismatic form of leadership is claimed to be relevant and effective, especially when it comes to implementation of M&A integration changes (Mumford & Van Doorn, 2001). This form will be therefore further discussed in the following chapter. The following key behaviors are relevant to the effective implementation of PMI: providing a sense of mission or purpose based on opportunities and constraints in the larger environment, emphasizing a vision that is based on sense of purpose, showing determination when accomplishing goals or change, acting decisively, demonstrating unconventional action or behavior, showing confidence, and providing insights (Waldman & Javidah, 2009).
2.5.2.3 Charismatic leadership

As a charismatic type of leadership is largely recommended for the merger integration (Mumford & Van Doorn, 2001), special attention must be given to it.

Two types of charismatic leadership are distinguished: personalized charismatic leadership (PCL) and socialized charismatic leadership (SCL). Additionally, a Level 5 leader may be also differentiated (Collins, 2001; Waldman & Javidah, 2009). Depending on the extent to which one of those types apply and considering a nature of leader’s power motive and desire to influence others, the integration strategy may vary and not always lead to the integration as such. Though both types of charismatic leadership reflect a strong power motive, the socialized charismatic type of leadership (SCL) is more self-controlled and goal-oriented for the good of the community rather than for reaping some personal benefits. The personalized charismatic type of leadership (PCL), on the other hand, uses power for personal gain, being to some extent manipulative or even exploitative towards others (Waldman & Javidah, 2009). Collins (2001) describes also an additional type, the Level 5 leader, a combination of PCL and SCL that focuses on combining one’s personal ambitions into building a great organization (Waldman & Javidah, 2009). This leader is humble at the personal level, but extremely ambitious at the organizational level.

Waldman & Javidah (2009) provide certain distinctions between socialized and personalized charismatic leadership types. As far as vision and inspirational qualities are concerned, the SCL emphasizes the importance of a vision; whereas PCL stresses the relevance of leader’s own vision, articulating the importance of a leader rather than the vision. Specifically in the event of M&A the PCL will emphasize the benefits of the deal and is likely to use publicity as a mean to create own image in the eyes of colleagues, and will orchestrate the event for the good of own personal agenda. Such a leader perceives challenges in the environment as a potential threat and seeks a change for self-promotion. As far as generation of confidence is concerned, the PCL is concerned less in building trust within organization, emphasizing instead the leader’s own ideas and personal abilities. Therefore the post-merger combination may actually end up with absorption strategy of change and not with proper integration (Waldman & Javidah, 2009).

The socialized charismatic leadership (SCL) in post-merger integration, on the other hand, is very much concerned with collaborative shared vision formation, decision-making processes, collective social interest, and promoting integration as a solution for the organizational alignment. In order to promote a collaborative approach the SCL
attempts to understand compatibility between the joining entities and potential areas where integration might be challenging. Such a leader creates a shared vision, built upon a desire of followers to pursue a common important undertakings. Moreover, the SCL is willing to share leadership with followers at different organizational levels in both joined entities in order to be collaborative and to increase likelihood of shared vision. The SCL possesses a strong sense of values and purpose tied to the social interests as well as vision for defining directions of the newly-formed entity (Waldman & Javidah, 2009). As far as generation of confidence is concerned, the SCL trusts in people within the organization, displays emotional stability and is confident enough to include different perspectives and diversity. Knowledge and open information sharing are promoted for the purpose of developing individuals and the organization. The socialized leadership perceives challenges in external environment as opportunity to improve and expand the organization and believes that change actually helps to move the organization forward in a mutually beneficial manner (Waldman & Javidah, 2009).

Although both forms of charisma reflect a strong power motive, in case of SCL it is more self-controlled and directed toward the achievement of goals and objectives of organization, rather than for personal gain. Similarly, stewardship theory would suggest that steward managers will choose to act in the best interests of the organization instead of behaving opportunistically (Shen, 2003; Waldman & Javidan, 2002). In contrary, the PCL is narcissistic and uses power largely for personal gain, acting as agent manager and potentially putting own interest before that of organization (Maccoby, 2004). Additionally, the rise of the neo-charismatic leadership is relevant to a merger context and proved to be credible executive road maps to leading macro- and micro-level change processes (Tikhomirov & Spangler, 2010). Neo-charismatic theories present certain set of behaviors, such as identifying and articulating a vision, providing an appropriate model, fostering the acceptance of group goals, setting high performance expectations, providing individualized support, and fostering intellectual stimulation. While intellectual stimulation refers to challenging followers to reexamine their assumption about their work and finding ways of improving their performance, the vision, role modeling and group goals are core principles of neo-charismatic leadership (Tikhomirov & Spangler, 2010).
2.5.3 Communication

2.5.3.1 Importance of communication in PMI process

Communication is one of the major success factors of post-merger integration and also its major pitfall (Lauser, 2010). Many researches perceive communication as one of the most critical tasks in integration; ineffective communication is often cited as one of the major reasons for merger failure (Appelbaum, Lefrancois, Tonna, & Shapiro, 2007; Bartels, Douwes, De Jong, & Pruyn, 2006; Fletcher, 2008; Lesowitz & Knauff, 2003; Schweiger & Weber, 1989; Schuler & Jackson, 2001; Stanwick & Stanwick, 2001; Van Dick, Ullrich, & Tissington, 2006). According to A.T. Kearney’s Global PMI Survey 1998/99 it is communication, or rather, under-communication that is the number one problem identified during PMI (Appelbaum et al., 2007; Bert, MacDonald, & Herd, 2003). According to De Haldevang (2009) "most communication fails because it is conceived from the position of 'ease of delivery' rather than effectiveness of receipt" (2009: 18), and claims that successful communication should focus on a simple question: what would you like the employees you are addressing to know, think, feel and do?

Clear communication should address all issues related to employees including potential consequences caused by the merger (Van Dick et al., 2006). This communication includes not only clear statements on possible lay-offs, compensation changes or potential relocation issues, but also a strong focus on the positive sides of merger, thus the employee’s identification with new organization is built up and increased. Furthermore, a genuineness of communication helps to promote a positive atmosphere around the merger and employee reactions towards it. In fact, "early communication includes timely, honest and direct information, together with a realistic assessment of future opportunities and obstacles, such as career diversification and downsizing plans. This type of communication early in the M&A process will reduce the risk of rumors, misunderstanding or wrong expectations among groups and individuals" (Appelbaum et al. 2007: 129). The lack of information and poor communication might result in employees leaving the company and looking for other jobs (Schuler & Jackson, 2001; Stanwick & Stanwick, 2001). Thus communication is also a valuable way to retain and motivate key employees (Schuler & Jackson, 2001).

In their longitudinal field experiment, Schweiger & DeNisi (1991) found out that regular communication programs, called as realistic merger preview, (e.g., merger newsletter, telephone hotline, regular informative meetings with management, etc.)
have a positive influence on employee performance and job satisfaction. Moreover, realistic communications help to reduce uncertainty, stress and therefore increase employees commitment and perception that the company is fair and honest. As far as communication channels are concerned, attention must be given to their proper selection. Information received through formal channels (emails, newsletter, posters) does not always reach the entire audience. Therefore more informal channels, such as unconventional ways of delivering message, are significantly more effective (De Haldevang, 2009). A message must reach the target audience and even if perceived as bad taste will attract desired attention. The figure 7 below exhibits a variety of possible media forms used in order to match the channels with required actions of employees (De Haldevang, 2009).

**Figure 7: Media effectiveness tool**

![Figure 7: Media effectiveness tool](image)

*Source: De Haldevang (2009), p. 19.*
2.5.3.2 Management involvement into communication issues

People must be clearly told and explained which new tasks are expected from them and why they need to do them (Lesowitz & Knaff, 2003). Communicating early and frequently, making personal communication, as well as providing self-tailored methods in terms of specific information and the audience it addresses will result in positive reactions towards the merger among employees. Findings of the study by Napier, Simmons, & Stratton (1989) prove that there is never enough communication, though Cornett-De Vito & Friedman (1995) conclude that it is not so much the amount but the quality of delivered information. It is important that employees are satisfied with both the amount and quality of received information (Bartels et al., 2006). It is also a grave mistake to leave employees without a sense of the goals and objectives of the merger (Habeck et al., 2000). Communication does not happen without managers taking responsibility for its planning and controlling. Those managers who can convince employees of their vision and achieve employee commitment produce positive results in merger integration (Bert et al., 2003). Appelbaum, Gandell, Yortis, Proper, & Jobin (2000) point out that communication is not only the most important factor throughout the entire process of a merger but that the true communication is difficult to achieve due to numerous obstacles, including merger syndrome, which "is characterized by increased centralization and decreased communication by management with employees" (2000: 650). For management the main issue in effective communication is the ability to deal with uncertainty and confusion among employees and resolve it as soon as possible. Further, management must oversee the communication process by developing a communication plan. This can be executed through: (1) assessing issues concerning audience, timing, method and message; (2) information delivery; (3) information gathering; (4) change galvanization; (5) helping employees to cope with change (Schuler & Jackson, 2001). A communication plan includes goals, a schedule for discussing decisions on the organization’s structure and culture, and staff that helps employees to understand the impact of integration on their job, compensation and benefits (Ligorner, 2007). It is recommended to develop a detailed communication strategy before post-merger integration starts and implement it as soon as the deal is announced. Moreover, in post-merger integration the effectiveness of communication between management and employees ought to be evaluated on a regular basis (Stanwick & Stanwick, 2001). This would give management feedback on whether previously communicated messages were consistent and reached the target audience. The information channels, formal and informal, must be implemented and their effectiveness must be evaluated.
2.5.3.3 Communication style and language during PMI

Communication issues gain on their importance specifically in the event of international deals (Weber & Tarba, 2010). This is the area where awareness of different cultures and their various communication styles is very crucial as it influences other human resources issues during integration as well.

As far as American companies are concerned, their commitment to integration issues is the highest, with a tendency towards absorption. In their communication style they use first names while addressing employees, hold regular meetings at all management levels, publish company newsletters, applying "informal communications in a relatively formal way" (2010: 129). Japanese on the other hand are characterized by rather indirect, unspoken way of communicating. Their attitude towards integration strongly differs from that of Americans and is characterized by slow adaptation of changes and norms. Similarly, German companies rather tend to avoid a close integration with other parties and try to establish their communication style somewhere in between formal and informal one. French companies, on the other hand, are situated somewhere in the middle of an integration spectrum, showing less interest and initiative in integration issues than Americans but certainly more determination than Japanese and Germans. Concerning French communication style, it tends to be hierarchical, top-down, and is largely based on informing other party only when it is absolutely necessary, need-to-know basis (Weber & Tarba, 2010).

The communication style is closely related to introduction of a common corporate language, with a purpose to promote a better integration between both entities. In the literature, however, problems associated with language are neglected, especially in terms of dealing with multicultural organizations (Piekkari et al., 2005). Language, after all, is the medium of communication and deserves certain attention. Furthermore, the introduction of a corporate language creates an additional uncertainty, misunderstanding and a range of other issues that harm the post-merger integration process (Piekkari et al., 2005). In the event of international mergers it is particularly sensitive issue, since there will always be a side to which a chosen corporate language will be simply a foreign one (in rare cases – to both sides).

In their study Piekkari et al. (2005) shows how, particularly in the event of international deals, the choice of corporate language not only is the central element in new corporate culture and balancing power among merging parties, but may actually have an undesired effect on human resource issues, leading to unfavorable disintegration and unequal opportunities.
The adoption of a common corporate language (language standardization) "facilitates formal reporting between units in the various foreign locations, thus minimizing the potential for miscommunication and allowing for ease of access to company documents such as technical and product manuals; operating procedures; and record-keeping; enhances informal communication and information flow between subsidiaries; and assists in fostering a sense of belonging to a global 'family', which has been suggested as an important element in the multinational’s use of soft control mechanisms such as corporate culture" (Marschan-Piekkari, Welch, & Welch, 1999: 379)\textsuperscript{23}.

In modern days the role of English as lingua franca gained largely on its dominance and became dominant working language in international business. Companies tend to choose it as a neutral language, emphasizing the equality between merged parties, even if none of them are of English origin. For example, the created pharmaceutical company Aventis, resulted from the merger between German Hoechst and French Rhone-Poule, adopted English as its internal communication tool (Piekkari et al., 2005).

The choice of corporate language, however, may also cause certain implications on other human resource activities. As far as performance appraisal is concerned, in their research on Swedish-Finnish merger Piekkari et al. (2005) show how challenging this issue is, especially in the beginning. Due to employees’ lack of proficiency in common corporate language, the appraisal interviews were carried out with a help of interpreter. Otherwise, although professionally highly-skilled, employees appeared to be silent, and seemed to underperform. Language courses were offered and special attention towards language knowledge while recruiting was paid. Moreover, promotion opportunities seemed to be language-dependent as well.

Cornett-De Vito & Friedman (1995) believe that success of integration on communication level largely depends on four main characteristics: sequence, tone, channel and symbolism. Employee perception of the merger might be diminished if rumors and informal interactions start sooner than actual information about the merger is spread. A tone is particularly crucial when the merger is clearly an acquisition. The tone of messages sent by the acquiring company to employees of the acquired company might actually have a strong impact on how employees perceive the acquirer. Channels also appear to influence employee experiences. Instead of informative

\textsuperscript{23} See also Ferner, Edwards, & Sisson (1995).
communication through memos, people prefer more personal visits and meetings where their questions will actually be answered.

Schweiger & Weber (1989) also conducted empirical investigations where communication media, communication philosophy and communication information were empirically identified. Their study showed that the most used communication medium by companies in post-merger phase was *small group and/or one-on-one meetings in which the acquired managers/supervisors met with their own employees*, followed by *letters, memos and/or videotaped messages from the acquired firm’s top management to their own employees*. Activities such as newsletters or telephone hotlines received little use.

### 2.5.4 Industrial relations

#### 2.5.4.1 Role of works councils

One of the challenges that companies face is how to become more attractive to its various groups (shareholders, customers and clients, suppliers and employees) and how to properly manage these stakeholder groups in order to improve their business performance (Goodijk, 2010). This stakeholder management process requires from company management the implementation of certain actions in order to increase stakeholder loyalty and therefore to mobilize among stakeholders the sense of responsibility that results in a stronger commitment towards company performance. Other challenges that company management are confronted with include creation of the organizational context for stakeholder involvement, organization of their involvement and participation, and consideration of constantly changing stakeholder interests (Goodijk, 2010).

Such stakeholder management is a part of corporate governance of the company and includes issues like improvement of Board, the quality of the management, transparency and accountability; it deals also with stakeholder involvement and balance of interests. Another challenge is the question of how to improve involvement and participation of stakeholders in decision-making processes (Goodijk, 2010).

On the international level further globalization of companies has an immerse impact on stakeholder groups within company. One particular stakeholder group, employees, is a sensitive target for changing decision-making processes that result in increasing power imbalance between employees and decision-makers at the international levels (Goodijk, 2010).
The sense of responsibility among employees can be improved by developing more involvement and participation of employees and their representatives, such as works councils. Therefore, works councils can be a very powerful instrument that raises the voice of employees as the main stakeholder group and enables their active involvement and participation in the decision-making process.

Works councils defined by Rogers & Streeck (1995) is an "institutionalized body for representative communication between a single employer (management) and the employees (workforce) of a single plant or enterprise (workplace)" (1995: 6). Certain characteristics of works councils are identified by Rogers & Streeck (1995):

1. Works councils represent all the workers at a given workplace, irrespective of their status as union members. The existence of additional unions that also claim to represent workers raises the problem of differences between work council and unions. For example in Germany councils may be clearly differentiated structurally from unions and created and sustained not by union action or governance but by a separate, legally based works constitution (Rogers & Streeck, 1995);

2. Works councils represent the workforce of a specific plant or company, not of an industrial sector or a territorial area. Their counterpart is a single employer;

3. Works councils are not company unions. There is a distinction between works council representation of all workers in one workplace and union representation - of union members or of common interests of workers at the workplace;

4. As representative institutions, works councils encourage workers to express their views and ideas. The representative communication between employers and their workforces may concern any kind of topics and may be initiated by either side;

5. Works councils may or may not have legal status. Most council systems however are legally institutionalized (to different extent), and their structures vary across and within countries;

6. Works councils are not the same as worker representation on company boards of directors. In case of Germany, economic co-determination through workforce and union representatives on the supervisory boards of large companies became closely linked in 1970-80s to the formally separate system of workplace co-determination through works councils. Usually the same
people serve on both bodies, board of directors and as work councilors, and use the information and access they get as board members to increase their effectiveness as works councilors.

Particularly in the event of a merger the company management but also works councils are confronted with multiple sets of issues and an active partnership between both parties becomes inevitable. Moreover, works councils involvement in decision-making processes from the early stages of a merger, due diligence or signing of a letter of intent for the merger, builds a strong strategic position at the corporate level and the company management benefits from works councils consultations and opinions (Goodijk, 2010). The stakeholder model that covers partnerships of all stakeholder groups involved in the strategic policy making of the company, seem to gain on its role and focus. Within this model Goodijk (2010) perceives a partnership between management and stakeholders as a dynamic and changing dialogue. Specifically in the event of a merger change Goodijk (2010) emphasizes the importance and future potential of triangle Board of Directors-Supervisory Board-Works Council/Trade Unions, applicable for the dual board system. Illustrated in figure 8 below, the triangle helps increase possibilities for further development of employee participation in decision-making processes and at the corporate level.

**Figure 8: Triangle in the dual board system**

```
Supervisory Board

Board of Directors

Works Council/
Trade Unions
```


As a result the following interactions between parties are encouraged: strategic policy meetings between the Board of Directors and employee representatives; regular tripartite consultation between the Board of Directors, the Supervisory Board and the Works Council; informative meetings between the Works Council and representatives of the Supervisory Board; meetings to discuss the profiles of the Boards based on the phase of development of the company; agreements on opinion exchange (Goodijk, 2010).
2.5.4.2 Industrial relations in a glocal company

As far as a glocal company is concerned, according to Hilb (2009) "the glocal approach of industrial relations policies encompasses the symbiosis of the advantages of global and local objectives, strategies and instruments to realize permanent, constructive and open relationships between the glocal company as employer and the employees of the glocal company and their internal and external representatives" (2009: 168).

The objective of glocal industrial relations policy include two main aspects:

(1) Substance aspect, with its own three objectives: personnel involvement (consideration of employees’ interests and needs), personnel protection (respect of rights of all employees), and sound human relations (challenging work objectives, fair rewarding, benefits, development);

(2) Process aspect, including the following objectives: continuity of industrial relations (open, constructive and tolerant human and industrial relations), preference of 'company union'-free environment, search for union support (in order to accomplish goals), local autonomy in industrial relations (strong local autonomy is required to develop the best industrial relations in each country);

The described substance aspect of industrial relations is introduced in table 5 below along with industrial relations instruments that can be used in glocal companies.

Table 5: Instruments of industrial relations (I.R.)

<table>
<thead>
<tr>
<th>I.R. goals</th>
<th>Personnel participation</th>
<th>Protection from unfair dealing</th>
<th>Sound human relations</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.R. levels</td>
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<tr>
<td>Job level</td>
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<tr>
<td>- quality circles</td>
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<td></td>
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<tr>
<td>- overlapping communications groups</td>
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<td></td>
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<tr>
<td>- opinion surveys</td>
<td></td>
<td></td>
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<tr>
<td>- suggestion plan</td>
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<td></td>
<td></td>
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<tr>
<td>- open-door-policy</td>
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<td></td>
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<tr>
<td>- speak-up program</td>
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<td></td>
<td></td>
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<tr>
<td>- management principles</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- quality of work life program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- training policy</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- career development policy</td>
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<td></td>
<td></td>
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<tr>
<td>Plant level</td>
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<td></td>
<td></td>
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<tr>
<td>- works council</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>- company constitution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- internal communications</td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>
Company level | - incentive plan  
| - minority employee representation on the board of directors  

Union level | - labor relations policy  
| - external communications policies  


### 2.5.5 Quality of work life

Globalization also brings special challenges to organizations in terms of management of both diversity and work/personal life issues. Globalization means that the incursion of work life into personal life is even further enhanced. Issues like work life balance, diversity matters and flexibility capability has gained on importance largely. Advances in technology mean an expansion in the time and space when work can be performed. People can work at home or while flying from one destination to another. Therefore, the incursion of work life into personal life can be enhanced by additional flexibility in how and when work is performed (Hall & Parker, 1993). A field experiment on assessing the impact of flextime use on absenteeism and worker performance showed that both short- and long-term absence declined significantly (Cox & Blake, 1991). A greater use of flextime work scheduling is a way of organizational accommodation to diversity.

As far as diversity management is concerned, it provides firms with a greater ability to adjust properly to environmental changes and is a key to firm success and survival (Cox & Blake, 1991; Prahalad & Hamel, 1994). Diversity management refers to the practices put in place to encourage the assimilation of different people - different in terms of race, gender, attitudes, and beliefs (Noe & Ford, 1992). It also stimulates tolerance and acculturation within organizations (Bellinger & Hillman, 2000). The individuals who make up organizations are increasingly different from one another (e.g., gender, ethnicity, age, religion) due to several demographic trends around the world. Thus, the ability to get different people to work together may be a reflection of an organization's degree of tolerance. This tolerance or ability to manage diversity is a primary contributor to gaining benefits from diversity (Dass & Parker, 1996). In the study of Bellinger & Hillman (2000) they argue that team heterogeneity is beneficial in broadening alternatives considered and comprehensiveness of decision making.
Benefits are in form of increased creativity, better non-routine problem solving, more comprehensive consideration of alternatives and higher quality ideas.

The goal of diversity training, according to Noe & Ford (1992), is to "eliminate barriers such as values, stereotypes, and managerial practices that constrain employee contribution to organizational goal" (1992: 357). The elimination of barriers that hinder employees’ ability to create value is what an acquiring firm's management needs to do to allow the M&A to be successful. Therefore, if an organization is successful in overcoming the challenges of accepting diversity, this may position them to successfully manage resistance to other types of change.

Also Cox & Blake (1991) perceive diversity issue as a competitive advantage for companies. Organizations that fail to make appropriate changes to more successfully use and keep employees from different backgrounds can expect to suffer a significant competitive disadvantage compared to those that do. Alternatively, organizations quick to create an environment where all personnel can prosper should gain a competitive cost advantage over nonresponsive or slowly responding companies.

A variety of management issues and activities related to hiring and effective utilization of personnel from different cultural backgrounds are identified by Cox & Blake (1991) as following:

- organizational culture (valuing differences, prevailing value system, cultural inclusion),
- cultural differences (promoting knowledge and acceptance),
- mind-sets about diversity (problem or opportunity?, challenge met or barely addressed?),
- HR management systems (recruitment, training & development, performance appraisal, compensation and benefits, promotion),
- higher career involvement of women (dual career couples, sexism & sexual harassment, work-family conflict),
- heterogeneity in race/ethnicity/nationality (effect on cohesiveness, communication, conflict, morale; effects of group identity on interactions (e.g., stereotyping),
- prejudice (racism, ethnocentrism),

Post-merger integration. Problems in people management context.
- education programs (improve public schools, educate management on valuing differences).

The figure 9 illustrates the arguments through which the competitive advantage and their relationship to diversity management can be explained.

**Figure 9: Managing cultural diversity and competitive advantage**

![Figure 9: Managing cultural diversity and competitive advantage](image)

**Cost Argument**
(thead more organization is diverse, the higher the cost of a job in integrating workers; those who handle it well will thus create cost advantages)

**Marketing Argument**
(impact on consumer behavior and preference of women and racioethnic minorities to work for an employer who values diversity and buy its products)

**System Flexibility**
(thead increased fluidity create greater flexibility to react to environmental changes)

**Creativity**
(diversity of perspectives and less emphasis on past norms improve the creativity)

**Resource-Acquisition**
(promoting an organization as prospective employer for women and ethnic minorities)

**Problem-solving**
(heterogeneity produces better decisions through a wide range of perspectives)

*Source: Cox & Blake (1991), p. 47*

As far as work-life balance (WLB) factor is concerned, the research by Munteanu & Grosu (2011) explored its lowest level of satisfaction during integration. In this context, organizations should consider the following recommendations in order to improve employee satisfaction in respect to the balance between work and personal life (Munteanu & Grosu, 2011): (1) to review workload and right size of the staff level; (2) to establish a clear system of performance-based assessment; (3) to ensure effective communication within the organization since the first day of the M&A, concerning behaviors that are encouraged in the new organizational culture, including those related to work schedule; (4) to guarantee adequate remuneration of overtime or offsetting the overtime through holidays; (5) to address issues related to working
schedule primarily for the segments of young employees and middle management, in order to retain them after the announcement of the M&A.

Organizations need to select and train individuals who value diversity, who are flexible and who can help workers cope with work and personal life conflicts. Managers need to become aware of their own biases and how they might influence the way they react to employees who endorse different values, especially those that do not have a direct impact on work performance (Lobel & Kossak, 1996).

Flexibility, which is critical to all groups of employees, has been described as a focus on getting the work done rather than how-where-when it is done. Hall & Parker (1993) define flexibility as an organizational ability that enables employers to help employees express the identities and roles they have outside of work. Flexibility is mutual in the sense that both employee and employer need to discuss and negotiate how to meet their needs. Important is to determine the limits of flexibility, and under what conditions being too flexible prevents the organization from balancing customer, employer, and employee needs. Also important is to develop standards for evaluating how well people and organizations are performing along the dimension of balancing customer, employer and employee needs.

It is clear that for work/personal life and diversity initiatives to be effective there must be a focus on organizational culture change as well as particular programs. In order to achieve it managers need to be skilled in the process of managing change, including overcoming a resistance to change.
2.6 Personnel Management

2.6.1 Retention of key employees

Once objectives of newly established company are defined, management has to identify skill sets and competencies necessary for their accomplishment. Employees of both former entities are recruited in terms of expected performance of the new entity, thus key employees of both sides are identified (Lesowitz & Knauff, 2003). Retention of key employees may be understood as two ways of outplacement: in-placement (the actual retention) and out-placement (placing employees beyond the company's positions). The subject of the present chapter is to focus on in-placement that is on retention of employees within merged company.

Since selection of key performers as well as key managers is equally important, it is necessary to develop a recruitment and staffing strategy well in advance before integration happens (Lesowitz & Knauff, 2003).

As Bert et al. points out that "maintaining the wellspring of future company growth depends on attracting and retaining capable people [...]. Bringing the best people on board, fostering their development and ensuring that they stay for the long haul – [...] – is key" (2003: 48). In light of radical changes and high uncertainty that post-merger integration brings into personnel changes, retaining key employees is a critical element in PMI process (Kay & Shelton, 2000; Schuler & Jackson, 2001) and loss of key personnel often has a disastrous effect upon the outcome of the merger (Olie, 1990). Based on results of a survey on critical activities carried out among top executives worldwide the retention of key talent is followed by communication, retention of key managers and integration of corporate cultures (Kay & Shelton, 2000). The figure 10 below illustrates survey’s results.
Post-merger integration. Problems in people management context.

Figure 10: People are the key

<table>
<thead>
<tr>
<th>Percent of respondents who believe activity is &quot;critical&quot;</th>
<th>76</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retention of key talent</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>71</td>
</tr>
<tr>
<td>Retention of key managers</td>
<td>67</td>
</tr>
<tr>
<td>Integration of corporate cultures</td>
<td>51</td>
</tr>
</tbody>
</table>


Results of another survey, conducted with executives in multiple industries by Fletcher (2008) prove again that the issue of key talent retention belongs in the top five major business challenges during a merger and it remains a dominant concern for any newly created organization (Stanwick & Stanwick, 2001). Not only because employees are quickly swept up by other companies but also because of a problem of decreased work productivity resulted from an increased workload assigned to remaining employees. "The key to retaining key employees is to identify and resolve their concerns" (2001: 12). The retention of key employees is also relevant for achieving performance goals through the transition period and the long-term competitive advantage associated with specialized knowledge (Schuler & Jackson, 2001), as presented in the figure 11 below.
In order to keep good people, both evaluation and selection process must advance as soon as possible. According to Kay & Shelton (2000) it takes six to eight weeks to fill in positions on each level of the organization. An open communication helps to decrease undesired staff turnover to a minimum.

Key employees should be able to learn about future prospects ideally before the merger is announced (Kay & Shelton, 2000). So called top-to-top meetings with senior managers from both companies are desired, in order to develop the list of up to 100 nominated employees, indispensable for the new organization. The table 6 below shows an example of identifying key employees in a form of matrix that helps to control how to motivate key people to stay, which actions should be taken to keep them, and who carries responsibility for assuring that selected employees will indeed remain with the new company.
Table 6: Re-recruit your employees

<table>
<thead>
<tr>
<th>Impact of loss</th>
<th>Message to deliver</th>
<th>Date message delivered</th>
<th>Person responsible</th>
<th>Follow-up required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key individuals</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Key groups</td>
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</tbody>
</table>


Furthermore, the process of retaining a key staff or re-selecting ought to be followed by certain principles that would help to keep consistency in staffing process. Kay & Shelton (2000) highlight a necessity for tailor-made guidance since obviously in case of merger deals one size surely does not fit all. According to them companies might include the following matters: selection is aimed at capitalization on the strengths of both organizations; selection should be dependent on qualifications, experience and competencies of candidates only, without any favoritism when it comes to political views or age; external recruiting shall take place only in the event when the right candidates cannot be found internally.

Stanwick & Stanwick (2001) point out the importance of human resource issues, specifically the importance of effective employee selection and proper placing of merged employees within company, matched with their skills and position requirements. In this stage, a position of facilitator or establishment of certain orientation programmes to help employees with their new roles and responsibilities are highly beneficial initiatives. It gives employees an opportunity to get acquainted with a new working environment, structure and departments. Retaining as many key employees as possible is one of the most critical tasks during mergers (Stanwick & Stanwick, 2001).

If key employees feel confusion and growing anxiety because of their unpredictable future within the newly created company, many of them will most likely decide to leave. This in turn may result in a merger failure. "Retention of middle management must be a priority in the integration phase of a merger or acquisitions. Also, the management of the acquired or acquiring organizations should communicate more with employees younger than forty years and with those over five years in tenure. These categories of employees are least satisfied with the quality of management in the integration phase and an increased attention given to these categories of employees
may prove critical to their retention in the newly forms organization. Often, executives of the acquired company that the acquiring organization wants to keep are asked to sign special contracts to commit themselves to remain in the new company. While executive management has an important role in setting the company strategy, middle management is critical for the operational activities of the company. It is important that those middle managers with outstanding performance and key role to be kept within the organization, especially since it is likely that when transaction is announced they will receive job offers from the competition" (Munteanu & Grosu, 2011: 595).

Once a merger between Chase Manhattan and J.P. Morgan was announced, in order to ensure retention of its key employees Chase Manhattan made comprehensive offers to key employees and quickly communicated their new roles within organization (Stanwick & Stanwick, 2001). In case of the Deutsche Bank-Bankers Trust merger, the integration team in order to minimize uncertainties and increase willingness to cooperate offered to key employees a retention programme including certain commitments and guarantees (Salama, Holland, & Vinten, 2003). The following retention strategies for key employees are identified (Stanwick & Stanwick, 2001):

- identification of key employees that should be retained,
- evaluation of current market rates pertaining to compensation and benefits,
- communication of the value the employees will have within the new company,
- communication of employees’ new roles and responsibilities within the new company,
- presentation of a detailed proposal of new compensation and responsibilities,
- interaction between top management and key employees.

After the merger is complete, the human resources department should prepare a comprehensive critical analysis of the merger, including a comparison of the retention rate of key employees versus the targeted rate. This encompasses a detailed review of all interviews with key employees in order to examine areas with needed improvements (Stanwick & Stanwick, 2001). Loss of key employees as well as reduced productivity and performance of employees will also be largely noticeable as a result of poor or limited communication (Stanwick & Stanwick, 2001).

A helpful tool, used frequently in retaining key employees is incentives. The following incentive types are distinguished (Schuler & Jackson, 2001):
• financial deals - companies negotiate them with key employees that is usually accompanied by packages, vested over a certain period of time (in order to prevent employees from getting the money and leaving);

• employment agreements - employees who accepted financial incentives are usually obliged to sign an agreement, in order to ensure their retention within a company for a specific timeframe;

• retention bonuses - companies offer them to employees as a pledge of staying through the merger or until specific project is completed. This tool along with "housing allowance, profit sharing and spousal financial and job assistance" (Mitchell, Holtom, & Lee, 2001: 98) have become the 'tool of choice' (Wysocki, 1997).

Ivancevich & Stewart (1989) claim that the inability to retain or motivate talented employees is a critical contributor to merger or acquisition performance. Those employees, including managers, possess the necessary skills and knowledge about the business and markets. That is why it is so important to identify those key employees early enough before they themselves decide to leave.

There are different reasons why people leave organizations, personal and those influenced by employer (Mitchell et al., 2001). From an academic perspective it is a "job dissatisfaction that has been described as the most important and frequent cause" (2001: 97) to leave. Also study by Karaevli & Hall (2003) suggests that the financial incentives are not sufficient to recruit good people and to hold on to them. Job satisfaction is what is recognized to be the most important aspect of retaining candidates, especially high-potential ones. Highly talented people want challenging assignments and a workplace that supports continuous development (Karaevli & Hall, 2003).

Reasons to leave a job influenced by employer include, among others, unfair treatment of a coworker, being passed over promotion, being asked to do something against one's own beliefs or in response to a certain event that Mitchell et al. (2001) call "a shock to the system" (2001: 98). According to them, these shocks may include mergers, unexpected job offers, pregnancy, a poor performance appraisal, and other changes. Mitchell et al. (2001) present their unfolding model, consisting of four paths people take when they leave a job and involving different behaviors. Three of those paths are caused by shocking events whereas the last path related to leaving is actually due to an unsatisfying job. The example of the fourth path may be the case of
Jim Manzi, former CEO of Lotus Development Corp. After the IBM took it over, Manzi did not approve the changes within newly merged group and ended up leaving the company without any job offer.

Retention problems that companies face, however, cannot be solved purely by money. The creation of a retention plan becomes a necessity. During its development, a company’s leader must simply consider all on-the-job and off-the-job factors and articulate key findings, listed below, crucial for development of retention plan (Mitchell et al., 2001):

- setting of strategic decisions, namely making an evaluation of current people turnover and determination of reasons why people leaving. Here the exit interviews conducted by external consultants may serve as a tool to ensure that the reasons provided are not defensive or just serve to protecting the employees leftover. Another possible tool is a focus group with existing employees to help understand reasons that employees stay in their jobs. Development of top-level support for the plan as well as identification of targets helps organization to devote financial and human resources to the planning, development, and execution of focus groups;

- usage of conventional tools such as regular assessment of job satisfaction and organizational commitment, followed by application of necessary changes resulted from those findings. For this public feedback serves as a tool, and focus on traditional human resources issues such as supervision, compensation, work environment and company values are recommended.

- application of unfolding model and thus identification of types of events that influence people’s decision on changing their employment. For determination of these types and reasons for leaving both survey of current and former employees as well as conducting exit interviews may be a helpful tools to get information. Other tools include usage of realistic job previews for new employees, attacking the unsolicited job offer problem directly through placement counseling and services for spouses to keep employees from leaving, preparation of people for potential shocks, as in case of mergers, by organizing employee discussion groups about an event (Mitchell et al., 2001).

Some additional tools include cafeteria-style compensation plans, allowing people to choose compensation options that fit their lifestyle (for example more healthcare, more vacation time), establishment of mentoring or buddy systems, off-the-job social
activities that can create an opportunity to link people, and other perks such as sabbaticals, tickets to sport events or opera.

The retention of key employees during post-merger integration is closely integrated with a process of appraisal, necessary for a better evaluation of current employees. Kay & Shelton (2000) define two ways of such appraisal: independent management appraisal and post and invite. In the event of the first choice, a neutral external organization is hired in order to appraise candidates through interviews and 360-degree feedback sessions, concluded by making a recommendation to a decision maker. This approach offers objectivity and minimizes fears of favoritism, and speed up decision making process. Within other possibility, post and invite, all posts are published internally and employees may apply for them that help to consider all employees interested in a position. On the other hand, it takes a lot of time to review applications and it is a clear sign to employees that jobs are blocked, which only encourages people to look for a job in other companies.

2.6.2 Appraisal

2.6.2.1 Key issues in appraisal process

"Human resource appraisal is one process that must be effectively performed as a crucial element of the merger or acquisition process" (Ivancevich & Stewart, 1989: 152). The performance appraisal allows measuring and evaluating an employee’s behavior and accomplishments over a specific period of time and, properly managed, is a crucial asset in administrative decision making processes, such as regarding promotion, compensation, etc. Its objectives must be beneficial for both organization and individual, helping to make employee some personal thoughts on current performance and future development (Wiese & Buckley, 1998).

An evolution of performance appraisal process and its tools are thoroughly portrayed by Wiese & Buckley (1998). Formal performance appraisals, started in the USA, were used primarily in military and government organizations for administrative purposes, and were followed by first performance evaluations: global ratings and global essays. Although both methods made it difficult to make some quality decisions, the next tool was the man-to-man ranking procedure, based on five scales: physical qualities, intelligence, leadership, personal qualities, and general value to the service. Evolving from it, the next tool was called a judgmental rank order procedure, where raters had to prepare an overall performance appraisal by checking a box that would place each
rated person in a certain percentage among all rated persons (top 25 per cent, top 50 per cent, bottom 50 per cent, bottom 25 per cent). As the final tool that still is one of the most common tools used in modern days, are graphic- or trait-rating scales. By applying this tool a rater indicates (on a numerical scale) the degree to which the rated person possesses certain personality traits, such as leadership, initiative, cooperation, judgment, creativity, innovativeness and dependability (Wiese & Buckley, 1998). Although a performance feedback based on this method is not that useful, the trait-rating scale is inexpensive and easy to develop and manage, results are quantifiable and rater examines more than one performance dimension that in total provide results comparable across individuals and across divisions (Wiese & Buckley, 1998). Further developed tools aimed at reducing rater error and increasing value were forced-choice and critical incident methods. The first method, presented in a form of a number with no clear explanation, and high costs of its development, is not largely applied. Neither is the critical incident method, where supervisor collects observed behavior, both positive and negative of a rated person. This process is also rather unfavorable to use, largely due to complexity and difficult application to individual development (Wiese & Buckley, 1998).

Development of a new rating system, based on management by objectives, was a certain breakthrough in perception of performance appraisal process, mainly because it redefined the role of a supervisor from judge to helper and focused on results which employee produced (Wiese & Buckley, 1998).

In today’s environment there are multiple performance appraisals methodologies. Wiese & Buckley (1989) refer to four types of uses in performance appraisal by Cleveland, Murphy & Williams (1989): between person (refers to administrative purposes, including employee performance and decisions on salary, promotion, retention etc.), within person (including feedback on performance strengths and weaknesses in order to identify training needs or assignment to other tasks), systems maintenance (covering organizational goals such as workforce planning, evaluation of goal achievement, identification of developmental needs, evaluation of personnel system) and documentation (aimed at meeting legal requirements by documenting personnel decisions and conducting validation research on the performance appraisal tools). Since organizations try to meet all these purposes by using tools designed for one type, results are often dissatisfying. Therefore researchers continue their attempts to improve performance appraisals up to today (Wiese & Buckley, 1998).
Research conducted by Longenecker, Sim, & Gioia (1987) with executives strongly suggests that formal appraisal process is a political process, and only some ratings are made without political considerations. It also supports certain realities in organizational life, such as executives in large organizations are political actors who attempt to avoid unnecessary conflicts and to use organization’s system to their advantage. Longenecker et al. (1987) make some recommendations on how to minimize the effects of politics in employee appraisal. Regarding the behavior and actions of individual managers one should remember that internal political influences within organizations almost always affect personnel reviews or the personnel appraisal process.

Performance appraisals should be treated as an opportunity to communicate formally with employees about their performance, strengths and weaknesses and developmental possibilities. Most importantly, executives must remember that their perception of appraisal-related matters as well as their attitudes and behaviors serve as a guide for subordinates. Further on, it is suggested that openness and trust between manager and subordinates seem to reduce the intensity of political influence. Intentional manipulation (inflating and deflating) of appraisal ratings might be seen as a temporary solution in certain situations, but might turn out badly for both appraiser and organization as a whole (Longenecker et al., 1987).

Systematic and formal appraisals should start at the top of organization and serve as a guide for the lower management levels. Effective appraisals are characterized by the top management support, training on how and why appraisals are needed, and open discussions on appraisal process including political aspects as well as by maintaining the pay for performance approach (Longenecker et al., 1987).

2.6.2.2 Performance appraisal in mergers

Performance appraisals particularly help the parent company to understand better the strengths and weaknesses of the personnel in its new subsidiary. They provide mechanism through which a parent company can develop a positive dialogue with its new employees, and hence, foster the development of a new identity with the parent group (Child et al. 2003). Effective managers perceive performance appraisal as a tool for managing rather than for measuring subordinates, and use it to motivate and develop subordinates as well as to maximize access to important resources in the organization (Wiese & Buckley, 1998).
Ivancevich & Stewart (1989) perceive an accurate appraisal of the management talent as one that critically contributes to acquisition’s long-term performance. It helps to identify those talented and motivated employees and managers who should be retained. Accurate appraisals also provide a foundation for effective post-merger staffing decisions concerning such matters as promotion, transfers, termination, or early retirement.

Given the lack of certain appraising plans or programs within most companies, Ivancevich & Stewart (1989) propose a systematic *four-tiered approach*, recommending how to prevent the loss of valuable employees and how the acquired management talent can or should be appraised. This approach is applicable for mergers as well as acquisitions, almost regardless of the degree of integration between the two companies. Nevertheless the approach is most valuable in a complete merger due to the redundancy the merger creates in personnel and the immediate need to appraise all acquired managers.

Key characteristics of four-tiered appraisal approach are: hiring of an outside performance appraisal expert responsible for designing and implementing appraisals, involvement of multiple raters, and completing the appraisal process as soon as possible (Ivancevich & Stewart, 1989). By bringing a necessary expertise, an outside specialist is able to construct a systematic appraisal plan or program, gather necessary information in a short time, and prepare a set of recommendations compatible with objectives. An outsider also brings a needed objectivity and promotes fairness among involved parties.

As far as the second requirement of four-tiered program is concerned, an employee’s performance may be evaluated by involvement of multiple raters thus the following appraisal sequence (tiers) takes place: *peer appraisal*, *self-appraisal*, *clients/customers/suppliers appraisal*, and *outside specialist appraisal* (Ivancevich & Stewart, 1989).

Each tier is supervised by an outside expert, who modifies and directs the entire process. In view of Ivancevich & Stewart (1989) the involvement of multiple raters, is the most important element. Not only does it provide a comprehensive profile based on various views of evaluated managers (persons rated), but also it significantly reduces the bias of evaluations.

As far as *peer appraisal* is concerned, the raters tend to focus on dimensions resulted from their relationships with the appraised person. While supervisors address issues
like planning competence, work scheduling and its organizing, peers focus on the communication and interpersonal skills required for the job. Completion of a task is what peers pay attention to the most while appraising. Specifically in the event of merger or acquisition the peer appraisals might not always be practical and objective. Job security, increased anxiety and self-protection may distort any type of peer appraisal provided to the outside specialist. It is important that an outside specialist is qualified to create a report, communicate objectivity and detect bias if necessary (Ivancevich & Stewart, 1989).

Self-appraisal is the most subjective part of the management appraisal program, especially in the event of mergers or acquisitions. Although Ivancevich & Stewart (1989) refer to a number of studies that support self-appraisal as a valued appraising instrument, in reality certain issues come up. In case of a merger or acquisition, when retention issues are gaining in importance, people rate themselves higher than others. In addition, people tend to feel anxiety and hostility toward the entire appraisal process, thus may largely distort the self-appraisal.

In certain situations, especially when a manager deals with external parties, clients, customers and suppliers, appraisals might be very helpful. They deal with the appraised person and may provide helpful insight into a manager’s working style, habits and ethical posture. Since very often they deal with other managers, a comparison is inevitable (Ivancevich & Stewart, 1989). The presented tier, however, has its drawbacks, since not every manager has to deal in daily work with external parties.

Hiring an outside appraisal specialist seems to be the most objective solution, as there is no conflict of interest in either party with no working relations to managers evaluated, which helps to avoid a potential bias in evaluations. Performance of this task requires certain skills and expertise. In the event of mergers in particular an outside appraiser should be trained and experienced in understanding human resources issues, able to gather information and apply necessary strategy, possess knowledge on legal rights and understand objectives of a new entity (Ivancevich & Stewart, 1989).

In a post-merger climate, effective appraisals and staffing decisions must be made as quickly as possible. Ideally, according to Ivancevich & Stewart (1989), the four-tiered approach should be implemented before the deal is finalized. It is worth mentioning significant differences between above presented four-tiered appraisal approach and traditional approach to performance appraisal (PA).
The traditional approach uses two kinds of performance measures: *objective* (such as number of units produced) and *subjective*, which depends more on human judgment (such as cooperation, dependability).

Any variety of appraisal methods (such as trait checklists, management by objectives) are often combined into a standard appraisal form, completed by supervisor and structured in a six-step way, similarly to as shown in figure 12 (Ivancevich & Stewart, 1989). The feedback is critical and the results of such appraisals are used to make decisions about compensation, promotion, development and coaching of evaluated persons.

**Figure 12: The flow of traditional performance appraisal**

![Diagram of traditional performance appraisal](source)

In four-tiered approach, however, the objective is to provide speedy and accurate appraisals used for making staffing decisions, and not a feedback as such. Also the role of a rater/supervisor, seems to be minor in the four-tiered approach, as in post-merger climate the single perspective is insufficient and the supervisor’s evaluation only supplements the appraisals conducted by multiple raters. Moreover, the four-tiered approach promotes the role of external specialist to control the appraisals, what is not the case in traditional model of performance appraisal that largely relies on practices of the human resources department. The common characteristic of both four-tiered and traditional appraisal methods, though, are shared objectives of accurately
measuring performance and identifying candidate strengths and weaknesses (Ivancevich & Stewart, 1989). Implementation of a four-tiered approach starts from understanding of staffing needs and getting information on types of managers needed and specific skills. Ivancevich & Stewart (1989) present main characteristics in the four-tiered approach in the table 7 below.

### Table 7: Four-tiered approach to management appraisal, during M&A.

<table>
<thead>
<tr>
<th>Tiers</th>
<th>Sample used</th>
<th>Format</th>
<th>Main focal point of appraisal</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Peers</strong></td>
<td>Three persons per 'ratee'</td>
<td>Critical incidents(^{24}), trait checklist(^{25}), rankings(^{26})</td>
<td>Communication and interpersonal skills</td>
<td>Relies on recall of rater which may be faulty</td>
</tr>
<tr>
<td><strong>Self-appraisal</strong></td>
<td>Each 'ratee'</td>
<td>Open-ended structured essay form(^{27})</td>
<td>Career plans and view of the merger</td>
<td>Relies on writing and analytical skills of the writer (ratee)</td>
</tr>
<tr>
<td><strong>Client, customer, supplier</strong></td>
<td>Three or four raters if possible(^{28})</td>
<td>Critical incidents, comparative rankings</td>
<td>Management skills in dealing with external contacts</td>
<td>Relies on recall of rater which may be faulty</td>
</tr>
<tr>
<td><strong>Outside specialist</strong></td>
<td>Each 'ratee'</td>
<td>Structured interview(^{29})</td>
<td>Career plans, coping, openness toward the merger</td>
<td>Time to coordinate</td>
</tr>
</tbody>
</table>


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\(^{24}\) Critical incidents are reported on the 'ratee's' actions that were especially effective or ineffective in performing the job (Ivancevich & Stewart, 1989). Usually two effective and two ineffective incidents are asked to be named.

\(^{25}\) Trait checklists focus on communication and interpersonal skills of a rated person (Ivancevich & Stewart, 1989).

\(^{26}\) Peer is asked to rank the rated person in comparison to other four managers, who perform similar job (Ivancevich & Stewart, 1989).

\(^{27}\) Questions concerning career intentions, attitudes about merger, job knowledge, strengths and weaknesses and opinions on managerial effectiveness may be posed (Ivancevich & Stewart, 1989).

\(^{28}\) People from manager's external environment are invited to participate (client, customer or supplier) (Ivancevich & Stewart, 1989).

\(^{29}\) Questions aimed at career goals, skill strengths, and attitudes about the merger.
As already noted, the four-tiered approach is not aimed at providing a feedback to participants as such, but is used to make staffing decisions instead. Focus on staffing plan is essential, especially in the beginning of appraisal process, as it helps to outside specialists to get informed on required skills and functional specialties (Ivancevich & Stewart, 1989). Outside appraisers must be neutral and autonomous third party. Since the timing is relevant, the appraisal process ought to begin before the merger is finalized. Moreover, in some cases, the pool of managers to be appraised might be reduced to those managers who are critical to the merger or acquisition.

The main task for specialists is to find out if an appraised person is capable of coping with differences and a change that is about to come with a merger. As a result of a complex four-tiered assessment, the specialists prepare a three-segment report. It includes consecutively a written profile on each appraised manager along with summarized evaluation by all raters, ranking of appraised managers in light of focal points of the appraisal, such as interpersonal skills, communication, ability to cope with change, and finally, specialists present their own recommendations concerning a manager’s retention, termination, or early retirement (Ivancevich & Stewart, 1989).

In their research mentioned earlier, Child et al. (2003) shows that in terms of appraisal approaches companies of a different nationality increased its use – from American *up-or-out* approach to more subtle way among others nationalities, particularly in case of Japanese.

### 2.6.3 Reward

#### 2.6.3.1 Key issues during PMI

An extensive literature review on compensation issues suggests that the pay system is an essential mechanism through which the individuals' efforts are directed toward the achievement of organization's objectives. Also, compensation is heavily influenced by culture and must be customized according to requirements of a country's institutional environment as national differences in top management compensation result in distinct managerial behavior and therefore may impede a successful integration of a cross-border M&A (Gomez-Mejia & Welbourne, 1991).

Gomez-Mejia & Welbourne (1991) conducted an analysis of compensation systems and characteristics in terms of national cultures by Hofstede (1980). These characteristics are presented briefly below in terms of U.S. system, as the case study
presented in the empirical part of the present thesis refer to both American and German companies.

As far as *power distance* is concerned, the U.S. generally utilize hierarchical structures, characterized by large differences between blue-collar positions and professional or management jobs. Therefore, the ratio of highest paid-to-lowest paid workers in a firm is significantly higher in the U.S.

In terms of *individualism* that reflects the degree to which people in a given society value independence versus group membership, the U.S. promotes individual's right to freedom and success based on one's own efforts. It places extreme value on personal goals, autonomy and privacy. The following compensation strategies describe the high individualism:

- performance-based pay,
- individual achievement rewarded,
- external equity emphasized,
- extrinsic rewards are important indicators of personal success,
- attempts made to isolate individual contributions (who did what),
- emphasis on short-term objectives.

Pay policies within the U.S. tend to follow the pattern: individual-based pay-for-performance programs are the norm. Personal success is recognized, and external equity is emphasized in order to provide star employee with the symbols that signify they are high achievers. Reward programs that consider external equity issues are the norm in the U.S.; salary and benefits surveys are indicators of market trends. Inter-firm mobility is perceived as a way for employee to improve their situations, and companies try to maintain competitive salaries in the marketplace. An employee's loyalty is primarily to his or her own well-being and to that of his or her family, with minimal attachment to employers.

As far as *uncertainty avoidance* is concerned Gomez-Mejia & Welbourne (1991) found out that the U.S. companies tend to have fewer written procedures and less-structured activities. This allows for flexibility in creating decentralized reward programs. American workers generally accept more risks and individuals are willing to move from one firm to another in exchange for possible benefits. Also, they are more accustomed than European workers to layoff risk and having to seek alternative employment. Variable income plays less of a role for the typical non-management
employee since the compensation plans for these employees often does not include a variable percentage.

In terms of masculinity/femininity, this dimension characterizes the degree to which assertive (masculine) behavior is promoted by society and which roles are played by men and women. Both Germany and the U.S. were placed in the study by Gomez-Mejia & Welbourne (1991) among countries with high masculinity degree. However, as businesses enter new markets (and national cultures) and employ individuals with diverse personal backgrounds it is essential and inevitable that changes in that perspective constantly evolve.

Tuschke (2003) compared the level and structure of U.S. and German executive compensation packages and concluded that the level and structure of top management compensation packages varies significantly between U.S. and German companies and these differences weaken incentives, monitoring efforts, and management's willingness to innovate. Moreover, cooperation across national boundaries, a collective goal orientation, and the accumulation of social capital are hindered.

Research on management compensation conducted by Tuschke (2003) and presented briefly below emphasizes the association between the design of a compensation system and managerial behavior. Agency theory suggests that a performance-based compensation system directs managerial efforts toward the accomplishment of owner interests (Tuschke, 2003). Executive stock ownership and stock options are regarded as the major incentives that support the alignment of interests between management and firm owners. Research by Tuschke (2003) showed that the impact of differences in executive compensation on management's willingness to integrate and to cooperate is likely to be stronger for related M&A than for conglomerate M&A. Also, the results showed that the interaction of top managers with different compensation packages leads to a decrease in motivation, monitoring, and innovation in the joint company. Further, because the U.S. and German executive compensation systems trigger divergent managerial behavior, they impede the process of post-merger integration. The joint company faces also increasing conflicts and rivalry among top managers with different compensation packages.

The differences between compensation systems in U.S. and Germany are reflected in the shareholder-oriented governance system of U.S. and German egalitarian stakeholder-oriented corporate governance system. Differences in the structure of executive compensation packages are mostly due to executive stock ownership and
stock option pay. In terms of level of compensation the differences are significant, mainly due to high American CEO incomes.

The comparative overview of main characteristics of both systems is described in the table 8 below.

Table 8: Executive compensation systems in the U.S. and in Germany

<table>
<thead>
<tr>
<th></th>
<th>Stock-based compensation</th>
<th>Performance-based compensation</th>
<th>Additional characteristics of corporate governance system</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>- granted not only to top management but also across a number of hierarchical levels; - by offering it U.S. companies try to align the interests of management and employees with that of owners; - provides an incentive to tackle risky projects and have comparatively long-term horizons; - it rewards managers by 'reflecting the long-term consequences of their investment decisions';</td>
<td>- higher pay;</td>
<td>- dispersed ownership, an efficient market for corporate control, little political intervention; - focus on shareholder concerns;</td>
</tr>
<tr>
<td>Germany</td>
<td>- company stock and stock options as part of executive compensation packages (since 1998); - company's stock price has little influence on managerial income;</td>
<td>- very little pay; - a large portion of executive compensation packages is fixed and depends mostly on factors such as firm size and sales; - the variable compensation of top managers is small and depends on accounting figures (e.g., profit); - middle management is usually granted cash bonuses, related to individual performance;</td>
<td>- concentrated ownership, strong political intervention, an internal control of management through powerful owners and worker co-determination; - focus on protecting the interests of stakeholders' classes (e.g., employee, customers, banks)</td>
</tr>
</tbody>
</table>

Merger between German and U.S. companies is likely to weaken incentives for a compensation-based interest alignment between managers and owners (e.g., where the German company is a senior partner). In the American part of the company (e.g., as a junior partner) it is mostly a decrease in management's influence on the joint company's stock price performance that decreases the incentive between management and owners (e.g., shareholders, large stakeholders) (Tuschke, 2003). After M&A deal the stock price performance of the joint company is determined not only by decisions of U.S. managers, but also by their German colleagues. As the income of German managers is less influenced by changes in the firm's stock price, U.S. managers cannot know to what extent their German colleagues' decisions affect the stock price development. However, these decisions influence the stock price and the income of U.S. managers in the joint company (Tuschke, 2003).

In addition to a reduction in stock-based incentives, M&A is also likely to reduce external and internal monitoring efforts in the American part of the company (Tuschke, 2003). Prior to M&A the company's stock price development provides an external assessment of management's performance. Insofar as U.S. managers have only a reduced influence over the stock price, external monitoring is reduced after M&A. Internal monitoring, such as interpersonal and personal monitoring, is also reduced in the American part of the company. Interpersonal monitoring describes mutual monitoring and peer pressure among colleagues. Each manager who receives a large portion of stock-based compensation has a financial interest in increasing the firm's stock price and in monitoring the extent to which colleagues show the same efforts. Managers with strong performance will be supported and promoted, but managers with poor performance will be put under pressure. Because the incentive for mutual monitoring and peer pressure is connected to their financial interest in increasing the firm's stock price, only U.S. managers will have the incentive to carry the costs incurred by interpersonal monitoring. With a decreasing influence over the stock price after M&A, the incentive to engage in mutual monitoring and peer pressure decreases (Tuschke, 2003).

Kandel & Lazear (1992) consider three mechanisms of personal monitoring:

- empathy with colleagues who jointly contribute to the company's stock price, and to the income from stock-based compensation,
- guilt if one's shortcomings reduce the income of all,
- feelings of shame when these shortcomings are detected by others.
However, Tuschke (2003) further points out that since U.S. and German managers receive diverse compensation packages, they do not jointly contribute to the company stock price and they lack a collective goal orientation. As a result, potential feelings of empathy, guilt, and shame among U.S. managers are reduced. This leads to their weaken focus on the company's stock price performance and internal monitoring after M&A.

For German managers, incentives related to performance-based pay change comparatively little after M&A. The small portion of variable compensation is either not affected by M&A or can easily be adjusted to the new situation. In addition, the two primary determinants of fixed income, firm size and sales, increase automatically with M&A.

However, a reduction in compensation-based incentives is likely if the company experiences unexpected financial difficulties in the post-merger period. In this case, German managers must expect a cut in their variable pay that is independent of each individual's performance. Income comparisons with their U.S. colleagues are also likely to impede compensation-based incentives of German managers.

The more integrated the company becomes and the more managers of both parts need to cooperate, the more German managers will expect to receive equal pay for accomplishing equal tasks. Without an adjustment of compensation levels, German managers will feel unfairly treated. The subsequent dissatisfaction and loss in self-esteem is likely to have a negative impact on the performance of German managers. The dissatisfaction might go from bad to worse if the M&A requires restructuring in the German part of the joint company. For German managers, budget cuts and set-backs in privileges will be particularly hard to accept if the company has enough means to provide the U.S. colleagues with much higher fixed and variable compensation (Tuschke, 2003).

### 2.6.3.2 The impact of executive compensation on integration

The literature discusses a variety of strategies in order to reduce the costs of integration. Firstly, to realize synergies between businesses in different countries a firm can opt for high global integration and low local responsiveness (global organization). Secondly, a firm can tailor products and services to local markets and no longer use the advantages of global integration (multi-domestic organization).
A third option seeks to achieve both global efficiency and local responsiveness (transnational organization, or glocal).

The table 9 below portrays the main characteristics of compensation systems within different organizations.

### Table 9: Overview of compensation systems in different organizations

<table>
<thead>
<tr>
<th>Global organization</th>
<th>Multidomestic organization</th>
<th>Transnational organization (glocal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>- sets company-wide standards for management systems and compensation guidelines facilitates the integration after M&amp;A;</td>
<td>- the company keeps distinct compensation systems for U.S. and German executives, thus limiting the costs of integration and coordination;</td>
<td>- the firm combines both close global coordination and its scope for local flexibility;</td>
</tr>
<tr>
<td>- disadvantage is the high cost of integration and coordination of the joint company. Harmonizing U.S. and German executive compensation packages requires raising German compensation toward the higher compensation level of U.S. managers;</td>
<td>- however, the company gives up the potential benefits of implementing joint strategies and realizing synergies between U.S. and German business units. Therefore, the multidomestic organization is especially recommended for firms with unrelated businesses;</td>
<td>- global guidelines for executive compensation are intended to lower the costs of integration and coordination, while local flexibility allows for adjusting the compensation to local market standards;</td>
</tr>
<tr>
<td>- otherwise, if U.S. compensation packages are lowered, the company could no longer compete in the U.S. market for top managers. The executive compensation increase in the German part of the company though would dramatically enlarge pay gaps in the German side of the company. Because these pay gaps are usually quite small, an increase in executive compensation is likely to add to employee dissatisfaction.</td>
<td>- the primary advantage is seen in an internal capital market that enables the firm to (re-)allocate resources across national boundaries through a global network. This advantage became over the years though less significant.</td>
<td>- a transnational organization for joint U.S.-German company is in line with Gomez-Mejia &amp; Welbourne (1991) who emphasize that a firm's compensation system must fit with the respective national institutional environment;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- the elements of compensation will be set by global guidelines rather than by local market standards.</td>
</tr>
</tbody>
</table>


Tuschke (2003) points out that when companies with related businesses and a high degree of internal monitoring are designing executive compensation packages, they should emphasize fixed components. Whereas in case of unrelated businesses, which are difficult to monitor internally, one should focus on variable pay. Stock-based
compensation especially supports a market-based monitoring of unrelated businesses and helps to align the interests of management and owners (Tuschke, 2003).

Another approach to set global guidelines for executive compensation presented by Tuschke (2003) is based on *agency theory*. In the U.S. dispersed ownership and market-based monitoring seem to cause larger agency problems than does the German system, which is characterized by concentrated ownership and monitoring through several stakeholder groups (employees, banks, government). Agency costs induced by cultural differences and diversification can be reduced by keeping both U.S. and German parts of the company listed separately on the capital market. In this case, the influence of U.S. managers on the stock price performance on their part of the company would not be affected by the M&A and the alignment of stock-based pay would remain effective. However, by keeping compensation systems separate the company indeed reduces agency costs but has a negative impact on integration of U.S. and German businesses. Therefore, separate listings are only efficient as long as the reduction in agency costs is larger than the expected loss in synergies that is due to non-integrated businesses (Tuschke, 2003).

If U.S. and German units are integrated after M&A, managers from both countries start to compete for the same positions. The same applies if managers from both parts of the company work together in teams and want to get promoted.

Criteria for evaluation of individual performance are largely in line with national compensation systems. Thus, the criteria differ for U.S. and German managers. In their competition for promotion, U.S. managers, who receive stock-based pay aim at maximizing firm value. German managers, who rely heavily on fixed compensation, tend to focus on corresponding performance goals, such as size and profit. Given these differences, an evaluation of German managers by their U.S. superiors (and vice versa) will lead to critical discrepancies.

According to *behavioral theory*[^30], large inter-rank pay gaps induce managers to become less committed to organizational goals. As a result, cooperation and cohesiveness decline (Tuschke, 2003).

Differences in U.S. and German pay gaps influence also managerial career perspectives in the joint company. When promoted to a higher position, managers can

[^30]: Behavioral theory argues that large inter-rank pay gaps lead to deprivation and enforce the pursuit of self-serving efforts (Tuschke, 2003).
either receive an increase in income in line with the compensation system in their home country, or they can be granted extra pay, based solely on their new hierarchical position. In the first case, U.S. and German executive compensation packages will show a similar increase in income after promotion. In the second case, for U.S. managers a promotion-related increase in income will be substantially higher than such an increase for their German colleagues. This effect will be even greater in times of rising stock prices, when a generous grant of company stock or stock option pay is more attractive when there is an increase in fixed compensation. Therefore, it may well be the case that newly promoted German managers will receive a smaller and less attractive compensation package than will their U.S. colleagues.

In case of position-based pay, a promotion leads to the same absolute increase in income, independent of manager's current income or system prevailing in the home country. This form of promotion-based pay is in line with the principle of equal pay for equal task accomplishment (Tuschke, 2003).

As far as social capital, described by Leana & Van Bure III (1999) as social relations within a firm realized through collective goal orientation, is concerned, the U.S. and German executive compensation systems influence the transfer of knowledge and the accumulation of social capital in many different ways. The German compensation system, with its largely fixed income and small inter-rank pay gaps, fosters cooperation and an accumulation of social capital. However, in the U.S. the heavily performance-based compensation with its high inter-rank pay gaps stimulates competition among managerial colleagues, which can hinder the transfer of knowledge and cooperation (Leana & Van Bure III, 1999).

Almost as soon as a merger of U.S.-German company happens, the negative consequences of compensation differences emerge not only across ranks, but also for managers within the same hierarchical level. The fact that German managers receive lower pay for a similar job performance will cause them to be dissatisfied. Further, social relations between U.S. and German managers are also dominated by prejudices. From the German perspective, U.S. managers put too much emphasis on short-term success and are regarded as being overly focused on shareholders' interests while neglecting the interests of other stakeholder groups. The U.S. managers however claim that German managers pay too little attention to market requirements, especially of the capital markets, and perceive German executive compensation system as being too little performance-oriented.
2.6.4 Succession planning on management level

Leibman, Bruer, & Maki (1996) believe that succession planning, known as replacement planning few decades ago, remain relevant for company’s leadership and helps companies:

- "to assure the continuity of prepared leaders for key executive positions,
- to engage the senior management team in a disciplined process of reviewing the corporation’s leadership talent,
- to put the diversity issue on the corporate agenda,
- to guide the development activities of key executives,
- to re-examine corporate and business unit structure, processes and systems,
- to align with other HR that support the leadership renewal process (e.g., selection process, rewards),
- to contribute to the shareholder value" (1996: 18).

The scope of succession planning has largely expanded over the years and now covers the broad spectrum of issues, from organizational context (e.g., global expansion, introduction of new technology) to leadership development (Leibman et al., 1996). Ip & Jacobs (2006) perceive succession planning as a process through which companies plan for the future transfer of ownership and/or top management and "entails a longer term and more extensive approach towards the training and replacement of key individuals" (2006: 327) than replacement planning. In a broader sense succession planning is "a deliberate and systematic effort by an organization to ensure leadership continuity in key positions, retain and develop intellectual and knowledge capital for the future, and encourage individual advancement" (Rothwell, 2001: 6). The challenge is to develop strong leadership teams for strategic tasks, as leading a corporation requires a certain set of skills. In order to create and promote the highly competitive orientation of senior management, corporation should develop talent pools (where people are comfortable working in teams), organizational parallels (where assignments of the talent are defined by business strategy and development opportunities), supportive culture (where one’s contribution to the task means more than one’s level in organization), well-aligned administrative systems (where effective task accomplishment is possible with a use of appropriate tools and techniques) (Leibman et al., 1996).
2.6.4.1 Succession planning and succession management

In today’s dynamic business environment companies change and adjust their succession planning in order to remain competitive in developing leadership teams and for that more attention towards the next generation, *succession management*, is required (Leibman et al., 1996). It is characterized by its ongoing and integrated processes thus by moving to succession management companies create more flexible and dynamic approach for preparing future executives. Succession management allows leadership to instil a more dynamic process. This leadership and succession philosophy that focuses on developing the creativity and flexibility allows for a more rapid response to change (Leibman et al., 1996).

Karaevli & Hall (2003) concluded that constant technology development, mergers, globalization change employee values, because the "current business environment has rendered traditional succession planning approaches obsolete" (2003: 63). This forces companies to look for solutions that will help companies to "grow a large pool of well-trained and adaptable managers who see learning, mobility, and change as a part of their identities and jobs" (2003: 63).

Both *succession planning* and *succession management* are surrounded by various dimensions characterized differently (Leibman et al., 1996). These dimensions include *corporate orientation*, *organization focus*, *outcome*, *assessment techniques*, *communication*, and *selection pools*, and are briefly described below (Leibman et al., 1996).

As far as *corporate orientation* is concerned, the succession planning, characterized by deliberation and planning, is developed for a stable business environment where people built their careers within the same corporation. Corporation plays a major role in guiding employees through career ladder and ensures that they receive the right experience. Succession management on the other hand is characterized by preparation and opportunism and applies to more dynamic business environment, influenced by market changes and transformations. It acknowledges the fact that people will change employers during their career life more than once and ensures the corporation has depth in its leadership capability (Leibman et al., 1996).

In terms of *organizational focus*, succession planning put focus on the individual and its preparation for the leadership position, whereas succession management perceives individual in the context of the leadership team, and group works.
Concerning the next dimension, desired outcomes, both succession planning and succession management are aimed at the same goal - preparing leadership for the corporation. However, since the focus of succession planning is a process with an assumption that the position and its requirements are largely the same, the focus of succession management is the preparation of future leadership guided by the future leadership competencies with an assumption that business demands change. It also encourages managers to identify and provide development experiences for high potential employees, which in turn helps to increase corporation flexibility and openness in selecting future leaders (Leibman et al., 1996).

As far as assessment techniques dimension is concerned, corporations use a various range of techniques to assess high performing individuals. Two factors, the exclusivity of the managers rating (appraisal review) and the assumed stability of the position requirements (requirements of position remain largely the same), characterize the usual individual’s assessment process, causing a halo effect. Two major innovations of succession management on the other side, leadership templates and 360 degree feedback, help to minimize this effect. Leadership templates redefine criteria by which executives are developed and selected, emphasizing organizational vision, values, leadership competencies, and de-emphasizing the specific job function. The 360 degree feedback reduces the exclusive perception of a manager conducting the rating. The critical issue remains the integrity of the process that covers assessment and development of the future leaders (Leibman et al., 1996).

As far as communication is concerned, the traditional succession planning is characterized by closed, top-down planning. Succession management shifts the responsibility for career progression to the individual. Through a variety of tools (e.g., advertising executive positions, mentoring systems, integrating career plans into the succession process), corporations are increasing an open communication and cause more effective executive work.

The last dimension, selection pools, aims at blending executive talents from inside and outside the corporation. Succession management seeks executives from outside the company, believing that it provides a fresh thinking in terms of vision, decision-making process or implementation of new actions. For many companies it is also a challenge to create a synergy between internal and new senior management (Leibman et al., 1996).

Leibman et al. (1996) also consider four main areas, which companies ought to consider when examining their succession planning. These are: development of
leadership template, maximization of the use of pools, redefinition of senior management team involvement, and preparation of the leadership cadre.

*Development of leadership templates* is a framework for executive development, selection and reward, but also anchors the development of leadership team for business needs. As part of acquiring the additional competencies necessary to compete, the company will look to hire executives with technical skills in specific areas (e.g., marketing or sales). The leadership competencies also involve educating and energizing the workforce about the new environment, creating a sense of confidence about success and reshaping the organizational culture. Only then do the leadership competencies include both technical and non-technical executive competencies (Leibman et al., 1996).

*Maximizing the use of pools* encourages companies to create pools of leadership talent based on the desired leadership competencies. This provides flexibility in the creation of the leadership teams. Succession management ties leadership development to fulfilling the leadership competencies of the firm. Individual’s talent is recognizing and opportunities to fulfill its potential are provided. By providing the opportunities to its current and upcoming executives to develop those competencies, the company moves from tracking a particular person for a particular position to preparing a cadre of people (Leibman et al., 1996).

As far as *redefining the involvement of the senior management team* is concerned, it is one of the chief functions of the succession planning to serve as a mechanism for the senior managers to ensure the continuity of the organization’s future leaders. Succession management encourages senior management to re-focus its attention on motivational issues rather than resource management issues. Senior management must shift its emphasis towards managing the development of its future leaders rather than maintaining the depth of staff for current positions. Senior management should identify development opportunities that are critical to leadership development, assign tasks that are challenging, crucial to business and significant for creating organizational networks, and mentor those who may serve in a future leadership role (Leibman et al., 1996).

*Developing the leadership cadre* (figure 13) should be tied to competencies of the company, and not specific positions. In order to create individuals who are capable of holding a senior level position, a company must clearly set the competencies it seeks, be transparent in its selection process, provide developmental opportunities and
mechanisms to assess these assignments, provide guidance and feedback, and align with the reward structure.

**Figure 13: Develop the leadership cadre**

![Diagram of leadership development]

Source: Leibman et al. (1996), p. 27

### 2.6.4.2 Succession planning and leadership development

In their study Conger & Fulmer (2003) found out that successful companies must combine two practices – *succession planning* and *leadership development*, in order to create a long term process for managing the talent pool across their organizations. Both processes share a fundamental goal to get the right skills in the right place and need several owners: human resources personnel, CEO and employees at all levels. This is important if an organization wishes to develop a healthy and sustainable pipeline of leaders (Conger & Fulmer, 2003).

Conger & Fulmer (2003) present five rules for setting up a succession management system that will build a steady, reliable pipeline of leadership talent:

1. **Focus on development** is the fundamental rule. Succession management must be oriented towards developmental activities. By marrying succession management and leadership development one gets best of both: attention to the skills required for senior management positions along with educational system that can help managers develop those skills. Leadership development is far more than just educational training, with real-life exposure to a variety of tasks.
and bosses, using techniques like *job rotation*, *special assignments* (establishing a regional office in a new country), and *action learning* program (where a group of high-potential employees study and make recommendations on a specific topic) (Conger & Fulmer, 2003). As an example, Eli Lilly has a successful action-learning program that serves a dual purpose: it provides developmental experiences to employees and results in useful work product for company;

(2) **identify linchpin positions.** Succession planning generally focuses on few positions at the very top, whereas leadership development usually starts in middle management. Bringing two functions into one single system allows companies to prepare middle managers to become general managers. Succession management system should focus intensively on *linchpin positions* – jobs that are essential to the long-term health of organization, critical for the future;

(3) **make it transparent.** In order to achieve a transparent succession management, company needs a system that is simple and easy to use, with immediate yet secure access for participants. Employees must have the opportunity to keep their resumes up to date and be willing to participate in company’s succession system with ability to nominate themselves for positions;

(4) **measure progress regularly.** Company must know whether the right people are moving into the right jobs at the right time. The ultimate goal is to ensure solid candidates for the top job;

(5) **keep it flexible.** The best-practice organizations studied by Conger & Fulmer (2003) follow the Japanese notion of *kaizen*, or continuous improvement in both processes and content. They refine and adjust their systems on the basis of feedback from line executives and participants, monitor developments in technology, and learn from other leading organizations. All companies examined in the study expect to modify their succession management system on a yearly basis as it is effective only when they respond to users’ needs and provide reliable and current information (Conger & Fulmer, 2003).

31 As an example, at Sonoco Products, one of the world’s largest manufacturers of packaging products, the linchpin position is considered the *plant manager* role, because it is the first opportunity to managers to be responsible for multiple functions as well as labor and community relations (Conger & Fulmer, 2003).
Groves (2007) introduces a best practice model for integrating the leadership development and succession planning process through optimal utilization of managers in developing the organization’s mentor network, identifying and codifying high potential employees, developing them via project-based learning experiences and manager-facilitated workshops, establishing a flexible and fluid succession planning process, creating organization-wide forum (e.g., leadership academy) for exposing high potential employees to multiple stakeholders, and establishing a supportive organizational culture.

Groves (2007) based on review of leadership development research presents the following best practice leadership development methods/tools: 360-degree feedback, executive coaching, mentoring, networking, job assignments, and action learning. Also, in recent years learning agility has been recognized as a critical skill for flexibility and adapting quickly to changes in the environment (Karaevli & Hall, 2003). It has been increasingly utilized as one of assessment tools in identification of talent by companies and is critical to executive development.

2.6.4.3 Development and promotion opportunities

Development opportunities that an organization provides after experiencing M&A are extremely important factors for retention of critical employees. Development of the following practices related to development opportunities available to employees is recommended (Munteanu & Grosu, 2011):

- development of customized training programs for different positions and communication on their availability and benefits,
- greater emphasis on professional development,
- investment in workforce training and implementation of customized programs for different age groups and hierarchical levels,
- creation of a link between professional development programs and career advancement opportunities (personal development plans, clear career paths and transparency around available positions, career mobility programs).

The ability to grow by promotion in an organization that is experiencing M&A can reward individual performance and behavior by providing financial benefits, status and skill development. The new organization after M&A will benefit from increased productivity of the rewarded employees and they, in turn, will remain motivated to
work. Opportunities for promotion can help retention and motivate employees, by reducing recruitment and training costs (Munteanu & Grosu, 2011).

Particularly during post-merger integration phase the fear of dismissal or job cutbacks can affect the retention of top employees or their performance. In order to address these potential problems, organizations must consider the following actions (Munteanu & Grosu, 2011): (1) update of retention policies for employees, (2) attention to high potential employees, especially those with 1-3 years of experience (at this point they begin to be sure of their knowledge and skills), (3) development and implementation of training courses focused on technical skills and soft skills development, (4) creation of a system of rotation in the workplace, especially for young employees, through which employees will be trained to perform several types of tasks in the same or related departments.

Karaevli & Hall (2003) conclude that succession management programs need to become more streamlined, decentralized and business-focused. One of the reasons managers tend to resist succession planning is that it is too complex. Instead a decentralized process should be utilized as a basic operating tool. Succession management programs need to be done as part of the business planning in the line units by providing more variety in the developmental assignments of high talent individuals and focus on the learning agility - learning how to learn. Managers need to have a constant dialogue with their subordinates about future steps, career directions and company needs to support mentoring and peer coaching relationships, by building networking into business activities (Karaevli & Hall, 2003). A company needs to define leadership development in a new way, through involvement of young managers in assignments that develop new skills and capabilities. These stretching assignments is a major factor in determining how successful they will be later in their career, thus the selection serves as career development (Karaevli & Hall, 2003).

2.7 Conclusions from the general theoretical part

In the literature review on post-merger integration much attention is given to how to properly conduct the entire post-merger integration and a number of various X-steps plans are described. Literature is also extensive in portraying an importance and value of human aspect in the entire PMI process as well as emphasizing people’s behavior
and attitudes towards such significant change process. In this context an emergence of a merger syndrome and occurrence of stressors deserve a special attention.

Relatively less is written on concrete problems that arise during people integration and on specific tools that need to be applied to smooth the people integration. The following conclusions may be derived from the theoretical part of this research:

- Stressors (sources of problems) are closely interlinked to and emerge as a result of a merger syndrome, and are reasons for an emergence of problems and difficulties in execution of post-merger integration;

- In terms of performance management the most meaningful for PMI is the aspect of leadership where the properly selected type of leadership (transformational, charismatic or neo-charismatic) creates the right setting for producing desired integration results. In this context an awareness of stressors such as role ambiguity and role conflict must be particularly high. In terms of communication the largest problem remains to be an issue of what to communicate and how to keep employees informed on current progress of the integration. An open communication is not enough and must be followed by providing honest information, delivered on a timely basis. As a result a feeling of uncertainty and anxiety will be largely reduced and will increase a level of job commitment. As far as industrial relations are concerned, an active involvement is necessary, of stakeholders and their representation bodies (works council).

- As far as personnel management is concerned, a particular attention must be given to issues such as retention of key employees and succession planning. Both aspects are aimed at keeping and development of company’s biggest value, people. Such stressors as perceived unfairness or job environment changes start to influence employees decisions for departure or resignation. In this context a challenging matter remain undertaking of specific actions, application of custom-tailored tools and career development options that would increase employee job commitment and satisfaction. Compensation and reward policies remain crucial while legal, cultural and institutional matters need to be investigated in the due diligence process.
3 Specific empirical part

3.1 Objective

Based on the conclusions of the theoretical part the objective of the empirical part of this thesis is to present a holistic picture of the post-merger integration process in a people context at former DaimlerChrysler AG company including presentation of key aspects of process execution and identification and classification of concrete problems and challenges that occurred in the process of post-merger integration in people management context. Further, an objective is to assign to each problem its specific source (stressor) as well as to portray certain tools, applied in order to smooth the PMI process.

In order to meet the set of objectives the process of post-merger integration in terms of people aspects in a real-life case study will be analyzed. Particularly the attention will be given to the difficulties and challenges during people integration.

Results of this study will refer to the recent merger between Chrysler and Fiat as well and will provide a set of recommendations based on lessons learned from post-merger integration at DaimlerChrysler AG. These recommendations are targeted at practitioners, scholars, interested parties and merged companies.

The figure 14 below pictures the milestones of DaimlerChrysler and Chrysler-Fiat alliances.

Figure 14: Chronological milestones

<table>
<thead>
<tr>
<th>DaimlerChrysler Merger</th>
<th>The end of PMI phase</th>
<th>DaimlerChrysler Realignment</th>
<th>Fiat starts alliance with Chrysler</th>
<th>Merger Chrysler-Fiat (FCA)</th>
</tr>
</thead>
</table>

Source: own


3.2 Research concept

3.2.1 Research methodology

The choice of research methodology is largely influenced by the nature of research and research questions investigated. While quantitative research is empirical research where the data are presented in the form of numbers and largely rely on methods aimed at theory testing and verification, the qualitative research is empirical research where the data are exhibited as words and are typically applied settings concerned with the theory building or generation (Punch, 2005).

The present thesis aims at examining the phenomenon of how the process of people post-merger integration is executed and what are the challenges and problematic areas of this process. Therefore, according to the basic categorization scheme for the type of a main research question and conditions for qualitative methods application, presented by Yin (2009), this thesis applies a qualitative case study research method.

Case studies are generally used when there is a complex phenomenon and a lot of data from multiple sources. It allows the researcher to obtain a thorough insight into environment in which the phenomenon occurs (Siggelkow, 2007; Yin, 2003).

As far as the nature of research is concerned, McCutcheon & Meredith (1993) states that exploratory case studies usually focus on theory development (1993: 243) and the research objectives are likely to be more explicit, as identifying the factors that appear to influence a particular process. In the present study that is the identification of problems and challenges of the PMI process in people context.

Rowley (2002) states that in exploratory case studies, which typically do not start with propositions, an alternative approach needs to be adopted. Here an alternative analytic strategy is to develop a descriptive framework for organizing the case study. Thus a framework of sections reflecting the themes in the case study are developed and evidence is gathered within relevant themes, and analyzed and compared in these categories, in order to achieve a description of the case study that can be corroborated from multiple sources of evidence.

32 "[...] the case study research method is preferred method when: a) 'how' and 'why' questions are being posed, b) the investigator has little control over events, and c) the focus is on contemporary phenomenon within a real-life context" (Yin, 2009: 2).
Punch (2005) on the other side compares both *descriptive* and *explanation* nature of research endeavors and claims that there are particular situations where a thorough *descriptive* study is very valuable. That is for example when a "*careful description of complex social processes can help us to understand what factors to concentrate on for later explanatory studies*" (2005: 15).

Punch (2005) claims that to describe is to somehow draw a picture of what happened, or of how things are proceeding, or of what a situation or person or event is like. Description focuses on what is the case, whereas explanation focuses on why something is the case (2005: 15).

### 3.2.2 Research design

According to Yin’s (2009) classification of research designs, the present study represents a *single case study embedded*, where the unit of analysis is people context of post-merger integration process and its aspects - personnel and performance management - are the sub-units (figure 15).

#### Figure 15: Research design

![Research Design Diagram](image)

Rowley (2002) claims that a key issue is that the case study should only ask questions about the unit of analysis, and any sub-units. Also, while *holistic* case studies examine the case as one unit, focus on broad issues of organizational culture or strategy and ensures a helicopter view of the case, the *embedded* designs identify a number of sub units (such as meetings, roles or locations) each of which is explored individually.
Results from these units are drawn together to yield an overall picture. The biggest challenge with embedded designs lies in achieving a holistic perspective from the analysis of the sub-units (Rowley, 2002).

According to Yin (2009) single case design is appropriate and applicable if the following rationale takes place:

- the case represents a critical/significant case in testing a well-formulated theory, and it can confirm, challenge or extend the theory (2009: 47).

The case of post-merger integration at DaimlerChrysler represents a case that extends the theory by identifying concrete problems in people context. The case also confirms the theory as it illustrates that the post-merger integration fails largely due to poor or failed integration on people level.

- the case represents a unique case.

The case of PMI at DaimlerChrysler was certainly unique, due to its being the largest merger up to that date, the great promises that the merger between Daimler and Chrysler was supposed to deliver\(^3\), and the incredible speed of the deal announcement and closure (it took less than a year to start and conclude the merger).

Moreover, the case briefly refers to Chrysler, which early in 2014 merged with Fiat. Uniqueness is also that this single case study of DaimlerChrysler is supplemented by a short analysis of today’s Chrysler-Fiat merger and focuses on aspects Chrysler must consider for post-merger integration with Fiat.

- the case is the representative or typical case. The lessons learned are assumed to be informative about the experiences of the average person or institution.

Lessons learned of the case on people integration at DaimlerChrysler serve as recommendations to other companies that would possibly merge but also to practitioners, researchers and interested parties.

- the case is the revelatory case (when a researcher has an opportunity to analyze phenomenon previously inaccessible to social inquiry).

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\(^3\) The combined company was supposed to bring USD 132 billion in annual revenues, be the fifth largest automaker in the world and employ ca. 430 000 people in 200 countries worldwide (Neubauer, Steger, & Rädler, 2000).
The author of the present thesis had an exclusive opportunity to discuss the case with members of the former Board of Management of DaimlerChrysler and therefore to get a management insight into the post-merger integration.

- the case is the *longitudinal* case: studying the same single case at two or more different points in time. However, Cartwright & Cooper (1990) write that "the inherent weaknesses of descriptive and retrospective methods are well documented. However, because mergers and acquisitions represent circumstances of sudden change and disruption, the perceived consequential importance has the effect of sharpening rather than dulling memory, with acquisition announcements producing 'flashbulb' type memories. Consequently, whilst pre/post comparative methods represent the ideal research design, retrospection is considered to be less problematic in merger research [...]" (1990: 70). Furthermore, Voss, Tsikriktsis, & Frohlich (2002) while analyzing whether to choose a longitudinal or retrospective case, write that "retrospective cases allow for more controlled case selection, for example it is possible to identify cases that reflect either success or failure only in retrospect" (2002: 202). Also, retrospective cases allow collection of data on historical events, whereas a disadvantage is that it might be difficult to determine the cause and effect, participants may not recall important event (2002: 203).

According to Stake’s (1994) classification, the present single case study of DaimlerChrysler is mainly an *intrinsic* case study as the researcher wants a better understanding of this particular case. Moreover, it is also somewhat *instrumental* case study, since the case of DaimlerChrysler is examined in order to give insight into an issue (Punch 2005: 144).

### 3.2.3 Case selection

The case of post-merger integration at former DaimlerChrysler was selected for this research for the following motives:

- due to a strong interest and curiosity of the author of this thesis in the topic of DaimlerChrysler merger activities that reflects an *intrinsic* nature of the research (Stake, 1994);

- the DaimlerChrysler merger remains "[...] a topic that is ever present in the global automotive sector", as concluded by former member of the Board of Management;
the DaimlerChrysler deal was "[...] the largest industrial merger the world had seen to that date [...]" (Neubauer et al., 2000: 375);

- the lessons learned from the DaimlerChrysler merger successes and failures will continue to be valuable for the mergers to come, in the automotive industry and beyond, due to its enormous scope and complex range of activities.

3.2.4 Criteria for judging the quality of research designs

Yin (2009) identifies four tests in order to establish the quality of empirical social research including case study: construct validity (trustworthiness), internal validity (credibility), external validity (confirmability) and reliability (data dependability). All tests are presented in the following chapters in regard to the present case study.

3.2.4.1 Construct validity

This test includes identifying of correct operational measures for the concepts being studied. To meet the test of contrast validity, a researcher must be sure to cover two steps (Yin, 2009):

- define a change (post-merger integration) in terms of specific concepts, and
- identify operational measures that match the concepts (e.g., citing published studies that make the same matches).

In order to increase the construct validity three tactics are available (Yin, 2009): the use of multiple sources of evidence, establishment of a chain of evidence, and preparation of the case study report. In terms of the present research, the mentioned tactics were considered and applied.

3.2.4.2 Internal validity

Punch (2005) states that internal validity refers to the internal logic and consistency of the research and therefore refers to the extent to which the findings faithfully reflect the reality which has been studied. It explains whether the research has internal consistency, that is whether all parts of the research fit together, or whether the findings are coherent. Part of internal validity is member checking, meaning checking with people who are being studied and who gave the data (checking the interview transcript for accuracy) (Punch 2005).
Yin (2009) claims that internal validity is used for explanatory or causal studies only and not for descriptive or exploratory studies. Given the exploratory and somewhat descriptive nature of this research the internal validity applies in a limited way in that a member checking has been conducted.

3.2.4.3 External validity (generalization)

The external validity problem has been a major barrier in doing case studies. Critics typically state that single cases offer a poor basis for generalizing (Yin, 2009: 43). However, Punch (2005) by referring to Denzin (1983) explains the problem of generalization of a single case study and points out that the "generalization should not necessarily be the objective of all research projects, whether case studies or not" (2005: 146). Therefore it is a researcher who decides if a generalization is an objective in the particular case study (Punch, 2005).

Punch (2005) also presents situations where the generalization would not be an objective in a case study as it takes place in the present research: "The case [...] may be unique in some very important respects, and therefore worthy of study[...]. The intention of such a study is not to generalize, but rather to understand the case in its complexity and its entirety, as well as in its context" (2005: 146). Further, Stake (1988: 260) distinguishes between scientific generalization, arrived at by experimentation and induction, and naturalistic generalization, where the general understandings are furthered by case studies and experience in individual events34.

Case studies have often been disapproved usually based on the generalizability criticism. Punch (2005) takes a different view saying that "properly conducted case studies, especially in situations where our knowledge is shallow, fragmentary, incomplete or non-existent, have a valuable contribution to make, in three main ways:

- it is what we can learn from the study of a particular case, in its own right,
- only the in-depth case study can provide understanding of the important aspects of a new or persistently problematic research area (particularly true when complex social behavior is involved). Discovering the important features, developing an understanding of them, and conceptualizing them for further study, are often best achieved through the case study strategy,

34 Julian Stanley: "When I want to find out something important for myself I often use the case study approach" (Punch 2005: 164)

Post-merger integration. Problems in people management context.
• *the case study can make an important contribution in combination with other research approaches*” (2005: 147).

Yin (2009) claims that the generalization is not automatic. A theory must be tested by replicating the findings, that is a *replication logic* in a second or even a third case should occur. Once such direct replications have been made, the results might be accepted as providing strong support for the theory.

### 3.2.4.4 Reliability

The goal of reliability is to minimize the errors and biases in a study (Yin, 2009). If a later researcher followed the same procedures as described by any earlier researcher and conducted the same case study, the later researcher should arrive to the same findings and conclusions. In order to repeat an earlier case study it is necessary to document the procedures followed in the earlier case. In order to confirm the reliability, Yin (2009) suggests two tactics: the use of a *case study protocol* to deal with the documentation problem in detail, and development of a *case study database*. Both tactics were considered for this research. The general way of approaching the reliability problem is to make as many operational steps as possible.

### 3.3 Target

#### 3.3.1 Data collection

Data has been collected through semi-structured face-to-face and telephone interviews of 30-180 minutes length in English and German. The interview partners were employees of former DaimlerChrysler AG.

Semi-structured interviews were carried out between 2011-2013. Further, data collected from interviews were complemented by internal documents of the former DaimlerChrysler such as presentations, company's reports and publicly available information. This strengthened the *triangulation* of the data (Jick, 1979).

In total 12 interviews were conducted with former employees of DaimlerChrysler across various divisions and hierarchical positions ranging from non-management employees to the members of Board of Management of the former DaimlerChrysler. All interviewees were directly or indirectly involved in the execution process.
of post-merger integration. Interviews were tape-recorded, transcribed and controlled for correctness.

All interviewees were asked questions concerning organizational issues, personal reflections, problems and difficulties of the post-merger integration process in people context as well as concerning tools that were applied in order to smooth the PMI. While some interviewees were open and willing to share their opinion, others were somewhat careful in expressing their points of view. Given that and the sensitivity of the DaimlerChrysler merger subject for some, certain interviewees wished to remain anonymous.

A review of publicly available information was also conducted in order to strengthen the input drawn from the interviews.

The aim of the interviews was to collect opinions and reflections on the post-merger integration in a people context, to identify problematic and challenging areas that influenced the process of PMI as well as to identify tools applied to smooth the post-merger integration.

### 3.3.2 Data analysis

This research is a **single case study embedded**, which includes a combination of two analysis methods - **interview analysis** and **content analysis**.

Interviews were analyzed based on the **bricolage** method (Kvale, 2007), which refers to "mixed technical discourses where the researcher moves freely between different analytical techniques" (2007: 115) during the analysis. Through a multiplicity of ad hoc methods it is a form of meaning generation and its outcome may be exhibited in words, numbers, figures, flow charts, and in combination of these.

"The researcher may here read the interviews through and get the overall impression, then go back to specific interesting passages, perhaps count statements indicating different attitudes to a phenomenon, cast parts of the interview into a narrative, work out metaphors to capture key understandings, attempt to visualize findings in flow diagrams, and so on" (2007: 115).

As far as analysis of content (articles, company's documents, newspapers, etc.) is concerned the method of Miles & Huberman (1984) applies, portrayed in the figure 16 below.
Figure 16: Components of data analysis: flow model

![Components of data analysis: flow model](image)


Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the raw data. It is a part of analysis that sorts, focuses, and organizes data in such a way that final conclusions can be drawn and verified. Qualitative data can be reduced in many ways - through sheer selection, through summary or paraphrase, through being subsumed in a larger pattern or metaphor, and so on. The coding of data (data reduction) leads to new ideas on what should go into a matrix (data display). Miles & Huberman (1984) distinguish two clusters of data reduction methods:

- *anticipatory* data reduction - in the form of methods aimed at focusing and bounding the collection of data (e.g., conceptual frameworks, research questions);

- *interim* data reduction, including among others contact summary sheets, coding (critical data reduction tool), memoing, site analysis meetings.

In this research the coding method (interim data reduction) has been selected through early identified people-related dimensions of the 4P Model and it served as a basis for drawing the necessary conclusions. The below table 10 describes the coding of interviews.

**Table 10: Coding scheme for interviews analysis**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership</td>
<td>Organizational issues</td>
</tr>
</tbody>
</table>

Post-merger integration. Problems in people management context.
<table>
<thead>
<tr>
<th>Performance Management Dimensions</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>Personal reflections Problems Tools</td>
</tr>
<tr>
<td>Industrial relations</td>
<td>Organizational issues Personal reflections Problems Tools</td>
</tr>
<tr>
<td>Quality of work life</td>
<td>Organizational issues Personal reflections Problems Tools</td>
</tr>
<tr>
<td>Retention of key employees and talents</td>
<td>Organizational issues Personal reflections Problems Tools</td>
</tr>
<tr>
<td>Appraisal</td>
<td>Organizational issues Personal reflections Problems Tools</td>
</tr>
<tr>
<td>Reward</td>
<td>Organizational issues Personal reflections Problems Tools</td>
</tr>
<tr>
<td>Succession planning</td>
<td>Organizational issues Personal reflections Problems Tools</td>
</tr>
</tbody>
</table>

Post-merger integration. Problems in people management context.
Data display is defined as an organized assembly of information that permits conclusion-drawing and action-taking. In this regard the following display modes are proposed by Miles & Huberman (1984):

- descriptive figures (context charts) that map the relationships among roles, groups, settings; or growth gradients that show the increase over time of some critical variable e.g., number of users of innovation);

- explanatory figures (scatterplots, event-state flow charts with key events during certain time period, causal networks that display the most important independent and dependent variables in a study);

- descriptive matrices (checklist matrix, time-ordered matrices that display phenomena as they occurred chronologically, and conceptually-clustered matrices bringing together variables connected by theoretical ideas, e.g., a set of motives and attitudes);

- explanatory matrices, which is used for sorting out explanations, reasons, and causes for observed phenomena.

Conclusion-drawing and verification involves drawing meaning from displayed, reduced data, by noting regularities, patterns, explanations, possible configurations, causal flows and propositions. Tactics for it are: making metaphors, counting, noting patterns or themes, seeing plausibility, clustering - these help to see and analyze what fits with what. For conclusion verification Miles & Huberman (1984) offer certain tactics.

In order to assure the basic quality of the data the following methods are available: checking for representativeness, checking for researcher effects, triangulating across data sources and methods, weighting the evidence or deciding which kinds of data are more trustworthy.

Another set of tactics for verification of conclusions is to look carefully at differences within the data set. For this one may use the following actions: making contrasts/comparisons, checking the meaning of outliers, and using extreme cases. Other tactics include well-developed actions for pushing conclusions that are hard to see if they ultimately hold up. These include ruling out spurious relations, replicating a finding in another part of the data or a new data source or set; checking out rival explanations and looking for negative evidence. Finally, getting feedback from informants has a particular confirmatory power (Miles & Huberman, 1984).
3.4 Limitations

For the purpose of the this research, in total twenty key former managers and executives of former DaimlerChrysler were contacted. Due to resistance and/or sensitivity to a topic, only twelve agreed to grant an interview. The content was delivered by former executive and senior-level employees who indeed did have an impact on how the PMI process was executed as well as by non-management employees who experienced the PMI and its effects in daily business. The request by the author of this research to access the archive department at Daimler AG in Stuttgart was, unfortunately, rejected and therefore the data collection for this research was somewhat limited.
3.5 Results

3.5.1 DaimlerChrysler – overall profile of PMI process

After the DaimlerChrysler merger took place, the main theme that emerged was synergies and how to become one company. With this merger a volume manufacturer with big American footprint but small global footprint (Chrysler) combined with a luxury manufacturer with worldwide footprint but far less volume (Mercedes-Benz). The main question was ‘how to grow these businesses together?’

In terms of value creation the post-merger performance of DaimlerChrysler was extremely unfavorable. Important post-merger events that influenced it were (Blasko, Netter, & Sinkey, 2000):

1. the decision of Standard & Poor’s not to include DaimlerChrysler in the S&P500 Index, explaining that "[…] it’s a German company, it pays taxes in Germany, it’s incorporated in Germany. Our long-standing policy is that non-U.S. companies will not be added to the S&P U.S. indexes […]" (2000: 320). A major consequence of this was a reduction in the number of U.S. shareholders in DaimlerChrysler (from 44% right after merger to 22% two years later), making it more a German company;

2. the departure of Chrysler top executives and engineers after the merger, which typically happens after mergers, but particularly in case of DaimlerChrysler merger may have been largely caused by clashes in corporate cultures and compensation schemes;

3. merger talks with Nissan of Japan and Mitsubishi Motor Corp., in order to expand operations in Asia. While the Nissan talks were closed with no-merger decision, in March 2000 it was announced that DaimlerChrysler bought a controlling 34% stake in Mitsubishi Motors Corp. for USD 2 billion (collaboration between both was aimed at creating the world’s third largest carmaker, after General Motors and Ford Motor with a combined annual sales of 6.5 million units);

In the phase of the PMI it is of great importance to ensure the highest management attention and speed to realize synergies in order to demonstrate outside and inside the company that ideas and plans presented in the merger announcement are being met. The problem of early and sustained uncertainty among employees should not be underestimated at all levels. The former member of Board of Management Chrysler
Post-merger integration. Problems in people management context.

Group at DaimlerChrysler states: "The top management [...] has to create a level of enthusiasm for the employees and a level of commitment. They have to create the excitement, so the employees take it really seriously. The top management commitment has to be important for the company and it has to keep track of the integration as well as review it on a regular basis. Equally important for the integration is speed."

The former member of the Board of Management at DaimlerChrysler, identifies the following key (successful) aspects of the PMI process at DaimlerChrysler:

- women's empowerment;
- clear objectives and stretch goals;
- performance management and compensation issues;
- availability of 14 Key Performance Indicators (KPI) included in the Global Human Resources Scorecard that functioned as a cockpit with main conditions, status and numbers. An external institute measured the satisfaction of employees at work as well as regular surveys were conducted in order to get feedback from employees on the relations within their department, cooperation with supervisors and on supervisor’s performance. These data were used for Employee Commitment Index (ManagerSeminare, 2008);
- union cooperation (IG Metall and UAW).

The merger process at DaimlerChrysler AG took place as a result of a process consisted of four consecutive phases. The figure 17 explains how each phase differed and is characterized by specific implementation requirements.
**Figure 17: Phases of a merger process**

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>- strictly confidential</td>
<td>- high speed</td>
<td>- highest management attention</td>
<td>- PMI tasks are transferred to the line organization and are supported by the central Business Transformation Management Group</td>
</tr>
<tr>
<td>- the smallest team involved</td>
<td>- tight joint litigation</td>
<td>- quick realization of synergies</td>
<td></td>
</tr>
<tr>
<td>- no false compromises in the final phase</td>
<td>- mutual trust and establishing relationship networks (formal and informal)</td>
<td>- high speed</td>
<td></td>
</tr>
<tr>
<td>- to set a management team and strategies</td>
<td>- tight litigation</td>
<td>- tight litigation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- monitoring of performance and success</td>
<td></td>
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</tr>
</tbody>
</table>

**Source:** based on Grube & Töpfer (2002), p.99

The post-merger integration process, reflected as phase 3. above, includes itself three sub-phases that are featured by own priorities. The figure 18 shows the PMI components.

**Figure 18: Sub-phases of post-merger integration (PMI)**

- Differentiated project management and control
  - integration of soft factors
  - performance control and monitoring on a regular basis
- Handover of PMI projects to the line management accordingly
  - integration belongs to a daily business
  - ensuring the projects results
  - gradual dissolution of PMI project organization

**Source:** based on Grube & Töpfer (2002), p.103

Post-merger integration. Problems in people management context.
Grube & Töpfer (2002) describe each phase accordingly. The main objective of the *start-up phase* was to identify, to categorize and to prioritize the integration themes as well as building the PMI project organization. Furthermore, identified topics and tasks were linked to specific projects and clustered accordingly. In case of DaimlerChrysler integration 100 topics were identified and classified in twelve clusters. In order to prioritize the topics, specific criteria were identified. This process is shown in the figure 19 below.

**Figure 19: Integration topics during post-merger integration at DaimlerChrysler**

In the project's *implementation phase* the expansion of both organizations into parallel organizations can occur. It is important that the agreed organizational rules and behaviors are efficiently implemented in order to achieve concrete results.

In addition to these first results, the positioning of the PMI issue on the agenda of the Board of Management is crucial and shows to the lower management (*Führungskräfte*) just how important the topic of PMI process is. All members of the Board of Management should take an active role in this particular implementation phase, be assured to possess the same level of information, and be prepared to know the latest advances in the project.

In the (PMI) project's implementation phase there is another aspect that must be especially taken into account, namely accomplishment of individual project teams’ objectives at different speeds and timeframes. As a result, the following phase of integration, the business transformation, has to be applied early enough thus the finished projects can be efficiently taken over by the line organization.

The *business transformation phase* was characterized by further synergies. In the event of resolution of the PMI organization and lower pressure on creating synergies, due to
gaining importance of daily business, the opportunity to secure further synergies could be lost. Therefore the main goals for business transformation phase at DaimlerChrysler were identified (Grube & Töpfer, 2002):

- checking the PMI results in a line management organization;
- transferring the main responsibilities concerning the PMI into the business divisions and business units;
- introducing the integration tasks into daily business and to secure a long-term process quality;
- next to the responsible of the line management organization a more inclusive coordination team for the whole process and the progress reporting should be established;
- to ensure that the entire integration and transformation of knowledge, experience and management are available and can be used by the entire company;
- a sustained focus on the integration helps to preserve the savings from synergy effects and points out attention to increase the opportunities for process development throughout the company.

Also, in order to ensure that the second (implementation) phase of the PMI is successful the Business Transformation Competence Center was founded.

### 3.5.1.1 PMI Guideline

The complexity of the post-merger integration resulted in a set of basic principles that were announced during the Kick-Off Meeting by the Board of Management. These were: (1) to select the best project actors (cast) for the PMI process, both management and non-management employees; (2) to create a team to implement fast actions; (3) to motivate and to reward project team members through bonuses and career opportunities (targets achievement); (4) to reach personal commitment of involved employees; (5) to realize simultaneously both soft and hard factors; (6) to avoid communication gaps; (7) to define clear PMI-Guidelines for the project (Grube & Töpfer, 2002).

The figure 20 below depicts the set of success factors of DaimlerChrysler merger in terms of hard and soft dimensions.
Figure 20: Success factors of DaimlerChrysler Merger

**HARD FACTS:**
- Synergies;
- Mission, goals, core values;
- New management and culture understanding;
- Multi-brands management;
- Consolidation of automotive industry;
- New product segments (new regions);
- Expansion of non-automotive business;

**SOFT FACTS:**
- Culture;
- Employees - the main task is to understand a new company, to network and to determine behavior in a new setting;
- Processes - important is that there is an adherence to defined processes, safety and orientation in a turbulent situation; processes must be improved, optimized and newly set up;
- Commitments - involvement in the PMI of each employee and application of certain tools, such as Balanced Scorecard, target agreements;
- Communication;

*Source: based on Grube & Töpfer (2002), p.114*

As far as PMI-Guideline is concerned, the following principles presented in the table 11 were defined during post-merger integration at DaimlerChrysler (Grube & Töpfer, 2002):
Table 11: PMI-Guidelines at DaimlerChrysler

<table>
<thead>
<tr>
<th>I. Continuity of operations during the PMI process</th>
</tr>
</thead>
<tbody>
<tr>
<td>The biggest weakness of the PMI process. Due to high priorities in PMI many areas suffers, including customer relationship. The tasks of daily operations and PMI process shall be treated equally;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>II. Focus on value drivers</th>
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<tr>
<td>This requires from project managers a constant monitoring of value drivers that at first place must be defined and are clarified as meaningful;</td>
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<table>
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<tr>
<th>III. Merger as merger of equals</th>
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<tbody>
<tr>
<td>An equal treatment is the basis for mergers of equals along with processes and tools unification;</td>
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<table>
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<tr>
<th>IV. Fast decision-making process and execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast decision-making process prevents the emergence of uncertainty among stakeholders of the company and prevents from neglecting the core business, as stated in the first guideline;</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>V. Empowering the people involved in the PMI (e.g., involvement of all members of the Board of Management)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Important is to keep the balance between a high participation of affected employees and management on one side and a quick and capable integration process without endless approval procedures on the other;</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>VI. Clear definition of the content, project networking and implementation on time</th>
</tr>
</thead>
<tbody>
<tr>
<td>The PMI is only a time limited transition phase. The challenge is rather to shorten this time period so as to quickly reach a transition from the PMI project organization to the line management organization (which runs the business after the companies are merged). The sooner the PMI project actors get back to 100% concentration on core tasks and duties the more successful they will be. However, if the transition is too rapid then there is the risk of no longer having the PMI process owners for special integration tasks;</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>VII. Post-merger integration is temporary and limited to two years</th>
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</thead>
<tbody>
<tr>
<td>The PMI process at DaimlerChrysler should have lasted up to two years. Already after 12 months the process along with issues and unsolved problems could have been transferred to line management;</td>
</tr>
</tbody>
</table>

Source: Grube & Töpfer (2002), p. 117

3.5.1.2 The plug-socket principle

This plug-socket principle (das Stecker-Steckdosen-Prinzip) aims to secure a double staffing and organizational features of both groups. A dual infrastructure means to ensure the continued availability of a competent and responsible PMI manager at any time. Both PMI managers must follow the target agreement in order to achieve merger goals. In case of DaimlerChrysler the plug-socket principle seemed to be proper as both groups were located on different continents. As in daily business many problems needed to be solved, one PMI manager was required on each side, thus the emerging issues could be clarified immediately. Moreover, initially the merged companies are very often unknown to each other, perceived as foreign organizations, with no or little personal contacts.

Figure 21 exhibits the plug-socket principle in PMI project management.
Figure 21: The plug-socket principle

Although Grube & Töpfer (2002) claim that the plug-socket principle at DaimlerChrysler was successful, the information gathered during interviews with former PMI Team members prove a different viewpoint. A double staffing at DaimlerChrysler did not meet its expectations and many issues remained unsolved as there was no centralized body to which concerns could be escalated.

3.5.1.3 The PMI project organization

The post-merger integration project organization was comprised of defined topics and projects as well as organizational units. The goal was to create a flexible and rapid-reacting post-merger integration organizational structure that could be adapted at any time to changing conditions of the PMI process.

Research by Grube & Töpfer (2002) presents below five PMI project organizational units and clusters.

The supreme body and the first organizational unit created the Board of Management with directors of the previous two Boards of Daimler-Benz and Chrysler, including two CEOs.

The second organizational unit comprised the group of twelve Issue Resolution Teams (IR-Teams). The first cluster of the IR-Teams was dealing with development, manufacturing, sales and marketing, purchasing, and all global strategic issues in the
automotive sector. The second cluster of the IR-Teams was in charge of topics that were not directly referring to the automotive industry. These were group-wide functions and non-automotive integration topics such as corporate finance, organizational culture, DaimlerChrysler strategy and development, communication, information technology, and research and development. Each of these integration IR-Teams was built up based on the plug-socket principle. Each of the twelve clusters was under responsibility of two Board of Management members – from both Daimler and Chrysler sides.

The third organizational unit was the group of PMI projects, where the operational processing of the defined projects was held. There were 1’273 subprojects each with its own sub-manager. The responsibility for these subprojects was with the Board of Management member and the upper project manager.

The fourth organizational unit was created based on the plug-socket principle and included five teams. One of these teams was Integration Process-Management & Communication group, responsible for tracking the impact and monitoring of the PMI processes. The other four teams were Cross-Functional Issue groups. These were Strategy Integration group, Business Culture, IT-Strategy and Management Information.

The last one was in charge of preparation and presentation of all necessary documentation that showed the progress of synergies as well as current positioning in regards to the required target. Both employees and coordinators of the IR-Teams were included into the PMI Coordination Team of 45 involved and met regularly once a month. Additionally a video conference took place once a week. Both heads of PMI Coordination Team reported directly to a member of the Board of Management, which lent importance to the entire PMI process.

The figure 22 exhibits the PMI project organization at DaimlerChrysler AG.
Figure 22: Post-merger integration at DaimlerChrysler AG

The PMI Team consisted of representatives of all divisions of DaimlerChrysler (e.g., R&D, Production, Controlling, Sales & Distribution, etc.). Following the plug-socket principle each division was represented by a member of the Board of Management on the Daimler and Chrysler sides respectively. The primary objective of this PMI Team was to find synergies, therefore to define projects and to identify issues that would result in synergy effects for both groups. The second major goal was to find ways of how to bring the two companies together and to create an environment that would enable cooperation.

In order to start the people integration process a 2-day Kick-Off Event was organized followed by regular bi-weekly PMI Team meetings in Germany or in the U.S., a process that lasted a year and a half. The PMI Team was officially dissolved.

Source: Grube & Töpfer (2002), p.119
on December 4th in 2000 by the Board of Management. Although the decision was made, members of the PMI Team believed that there were still much work to be done in the area of post-merger integration.

**Toolbox 1: Kit-Box**

Since The Day-One in London officially was the birthday of DaimlerChrysler, employees of both groups received a Kit-Box with vision and mission statements, flyers, video, and presentation on goals for the coming years as well as multiple symbolic souvenirs, such as DaimlerChrysler watch.

The former member of PMI Team on the Daimler side shares his positive experience while working together with Chrysler employees within PMI Team: "We were a team who has really worked on the matter, and we were very open to deal with each other, yet with a certain limitation, as I had a personnel supervisor, who told me what worked and what did not, and my colleague from the Chrysler side had his personnel supervisor, who also advised him on what worked and what did not. Despite this political tension we have cooperated successfully."

DaimlerChrysler succeeded the merger phase in record time. Six months after merger announcement DaimlerChrysler stock was issued on international stock exchanges around the world. This Day One was marked as the beginning of the company’s post-merger integration process. Within less than a year after merger announcement, the following milestones were marked: the implementation of new marketing and sales structure, the establishment of a *Brand Bible*, shared capacity within an existing manufacturing facility, the introduction of an integrated value-oriented financial performance measurement system, the establishment of the most effective supply chain in the world, the merger of the company’s financial services, synergies in research and development, increased opportunities for DaimlerChrysler employees, and the implementation of a company shuttle between the two headquarters.

In order to maintain brand separation, the DaimlerChrysler Board of Management adopted a detailed brand strategy – the Brand Bible. It provided clear guidelines for sales and marketing, positioning in the market, product strategy and market

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35 DaimlerChrysler, *Chronic of Merger*. 

Post-merger integration. Problems in people management context.
communication for each of the brands. According to the senior level management person engaged in international sales and marketing activities the Brand Bible (Marken-Bibel) initially was created to protect the Mercedes-Benz brand and it forbid any sharing or transfers of know-how over to Chrysler as well as exchange of ideas that could lead to synergies: "From the very beginning the Bible was created in a way that the Mercedes-Benz brand was overprotected. It took some time to realize that if Mercedes-Benz continues to follow the Brand Bible the brand will not advance in the world. The Brand Bible was a big hindrance in post-merger integration." Another interesting point the senior management person shared was about the absence of employees transfer between Daimler and Chrysler: "Mercedes-Benz side would not allow to transfer a person (e.g., designer) from Mercedes-Benz over to the Chrysler side since this person would use Mercedes-Benz know-how, design philosophies and implement it into Chrysler. This would create a 'competitor' for Mercedes-Benz."

3.5.2 Performance Management during PMI at DaimlerChrysler

The objective of the present chapter is to present the key issues of the post-merger integration in terms of performance management at former DaimlerChrysler. Dimensions such as leadership, communication, industrial relations, and quality of work life will be considered.

Registered under the German law, as a German stock corporation, the management of DaimlerChrysler represented a two-tier system where both the Board of Management and the Supervisory Board were present. The Board of Management managed the company under its own responsibility, thus it was responsible for all executive decisions; whereas the Supervisory Board was a monitoring body with no execution power and could not interfere directly with the executive management.

In case of DaimlerChrysler there were J. Schrempp and R. Eaton that represented the leadership of the company. R. Eaton did not do much himself to share his role as co-CEO in terms of integration progress (Tikhomirov & Spangler, 2010) and shortly after R. Eaton’s departure the only true leader became J. Schrempp.

The structure of the Board of Management, including committees such as Chairman’s Integration Council and Non-Automotive Council, made it inevitable that certain overlap in addressing issues would happen (Gentz, 2001).

36 DaimlerChrysler, Chronic of Merger.
One of the problems, if not the problem faced by the merger was its mismanagement and the problem of managerial fit to obstruct capability transfer (Tikhomirov & Spangler, 2010).

Expectations of creating a symbiotic integration with high interdependence and high autonomy in reality became an absorption model with high interdependence and low autonomy and as a result diminished the compatibility of managerial views on integration (Tikhomirov & Spangler, 2010). Discontinuities in managerial views became even stronger as J. Schrempp lacked the focus on integration implementation. His immediate search for another merger opportunity and (unsuccessful) talks with Nissan resulted in J. Schrempp’s poor awareness of integration implementation process between Daimler and Chrysler. This was reflected in a poor quality of attitudinal fit, managerial fit and of cultural fit between Daimler and Chrysler (Tikhomirov & Spangler, 2010). Proper and focused addressing of these issues ensures the capability transfer between merging entities, which maximize the value creation of the merger, and minimize the obstacles to organizational unification (Tikhomirov & Spangler, 2010).

The top management team had a somewhat different perception of the post-merger integration process overall than middle and lower management teams. While top management was convinced that the post-merger integration was implemented successfully and steadily, the middle and lower management experienced a (total) business separation between Daimler and Chrysler employees.

Integration projects were planned properly, but they were not physically properly executed by people involved. "Many of these post-merger integration projects, individually identified projects [...] they all got [...] an 'execution-tick', thus it could be presented at the Board. c a lot of things were just done on paper", concludes senior management person involved in international sales and marketing. The physical implementation of the post-merger integration between Daimler and Chrysler was not followed-up enough by the top management and resulted in a failure of leadership.

In the merger and post-merger integration period, Chrysler’s role in the merger was not really determined as it was neither officially acquired, nor treated as equal partner (Finkelstein, 2002). The CEOs, J. Schrempp and R. Eaton, did not put much attention to how the Chrysler’s future would be and left it alone for too long (Finkelstein, 2002). According to Bower (2001), J. Schrempp could not keep the people he needed. Key leaders and mid-level managers of Chrysler side feared for their careers and
departed the company as soon as they discovered a 'subordinate' role of Chrysler in this merger. From the CEOs perspective it was a serious misjudgment. Eaton’s detachment and lack of interest in running Chrysler was observed after the merger took place: "Eaton went weeks without speaking with Jürgen [Schrempp]. He preferred to maintain lower-level contact" (Finkelstein, 2002: 7).

In 1999 R. Eaton retired and J. Schrempp appointed a German management team (Finkelstein, 2002). However, according to the former senior manager involved in human resources at DaimlerChrysler: "Schrempp just did not want to share the power any longer." Moreover, other personal interests of J. Schrempp, such as reward, could have played a role as well. After the merger took place and as a result of compensation systems equalization the salaries of top management increased largely: "The absolute winners of the merger when it comes to the compensation were A, B, and C levels"37, confirms senior manager involved in human resources. These arguments would confirm J. Schrempp’s nature of a personalized charismatic leader (PCL), interested in own gains and interests.

According to Robert Lutz, former President of Chrysler Corporation, Bob Eaton was basically executing what former Chrysler CEO Lee Iacocca had talked about years earlier, which was the strategic benefit of partnering Chrysler with another global company and getting the synergies and sharing engineering. Daimler, however, did not want to share technologies. The merger was done but the synergies were never consolidated. Daimler totally mishandled what could have been a very effective merger. Daimler under J. Schrempp was in it for the money rather than for the strategic value. "Bob Eaton was not a strong personality and he let Jürgen Schrempp run all over him. I don't think I would have let Jürgen Schrempp run all over me, and I certainly would have put up a very stiff fight for Chrysler. Whether I would have prevailed or not is another question",38 states Robert Lutz.

Despite the underperforming association that J. Schrempp evokes, he demonstrated an impressive level of performance in dealing with merger justification, receiving almost complete shareholder’s support for the idea of merging two automakers. His responses to certain merger demands showed J. Schrempp’s even somewhat neo-charismatic leadership nature (Tikhomirov & Spangler, 2010). In 2000 J. Schrempp admitted that Daimler-Benz had deceived Chrysler and its shareholders by misrepresenting the true

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37 Hierarchical structure at DaimlerChrysler will be discussed later in this thesis.
38 http://www.youtube.com/watch?v=CY2-in-G4vc

Post-merger integration. Problems in people management context.
intentions with regard to the merger of Chrysler as a merger of equals (Tikhomirov & Spangler, 2010): "Me being a chess player, I don’t normally talk about the second or third move. The structure we have now with Chrysler (as a standalone division) was always the structure I wanted. We had to go a roundabout way but it had to be done for psychological reasons. If I had gone and said Chrysler would be a division, everybody on their side would have said: 'There is no way we’ll do a deal', admitted J. Schrempp during interview with Financial Times (Burt & Lambert, 2000: 26).

This confession accelerated the rise of further post-merger problems and disputes within DaimlerChrysler AG. As far as working style of management on the Chrysler side was concerned, one of the crucial issues that took place was a return to 'get it done' philosophy39. This approach was featured by building character and management skills because it forced managers to understand all aspects of business as opposed to just operating in only one section of the business. Freedom to operate was allowed as much as lots of authority to lower-level managers was given. "As for a leader, giving people responsibility and the sense of authority was critical", confirmed the former Chrysler senior level manager. Chrysler lower-management employees were encouraged to be proactive and perform with initiative, not overemphasizing the approval procedures.

As far as communication side of the post-merger integration at DaimlerChrysler is concerned, a lot of value and focus in post-merger integration was put on the direct communication. From the first day (Day One) there were different events held worldwide, the announcement from the NY stock exchange was broadcast live on TV (with J. Schrempp and R. Eaton), and every employee received a little package in new company colors in which was included a swatch watch, a pamphlet One Company One Vision, new company goals and other company information. In a further action more than 140'000 emails with a personal letter from J. Schrempp were sent to every employee on the German side, videos were made available, as well as a worker telephone interview with J. Schrempp was set up. In addition, a road show was organized where the members of the Board of Management informed each onsite plant on the current status of the merger. There were five separate areas in which PMI communications were planned (Grube & Töpfer, 2002). The table 12 below presents these areas along with main communication goals and tools.

39get it done philosophy was a concept used by the American Motors Corporation (AMC with Jeep brand) before Chrysler bought AMC from Renault.
Table 12: Communication during the PMI at DaimlerChrysler.

<table>
<thead>
<tr>
<th>Main aspects of each areas along with tools applied</th>
</tr>
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<tbody>
<tr>
<td><strong>Corporate Communications Department</strong></td>
</tr>
<tr>
<td>- from <em>Day One</em> a business TV was started via which all information about the PMI were announced and regular information updates in seven languages on all continents were transmitted;</td>
</tr>
<tr>
<td>- the goal was to bring together the large breadth of geographic coverage and different themes and subject matters of the combined company;</td>
</tr>
<tr>
<td>- tools were: TV, <em>DaimlerChrysler Magazine</em> (a monthly publication), the newspaper <em>DC Times, Headline</em> targeted at all management personnel;</td>
</tr>
<tr>
<td><strong>Management Development and Corporate University Department</strong></td>
</tr>
<tr>
<td>- specific PMI events took place during which project leaders, IR-Teams coordinators and both Heads of the Coordination Teams (CT) for the entire PMI organization provided a status update on the progress of post-merger integration;</td>
</tr>
<tr>
<td>- seminars and other strategic management events were organized;</td>
</tr>
<tr>
<td><strong>PMI Management Location Dialogue</strong></td>
</tr>
<tr>
<td>- a differentiation between DaimlerChrysler locations in the three regions: Germany, North America and other worldwide areas was made;</td>
</tr>
<tr>
<td>- as a result in each of the bigger company locations there was at least two informative meetings held concerning the current status situation, further steps, recurring difficulties, positive results and recognizable synergies; these meetings were organized to bring together the Heads of the Coordination Teams with the Board of Management and, afterward, with the works council. Following, a discussion with the works council took place concerning specific problem areas;</td>
</tr>
<tr>
<td>- the goal was to ensure that at no time could the Board of Management be accused of not providing sufficient communication about the merger as well as avoiding accusations that the Board of Management, works council and employees were not sufficiently informed;</td>
</tr>
<tr>
<td><strong>Top Management InfoBase</strong></td>
</tr>
<tr>
<td>- PMI action report updated every four weeks and sent to IT supported platform into which every management level employee could log in to check on the status of individual projects; a section called <em>PMI Success Stories</em> showed the results of single levels; for example the results of the CAD system analysis could be shown which in future would become the company-wide <em>CAD Data Management System</em> used throughout the company. The advantage of this system consisted of a central database which allowed simple access to all historical and actual documents;</td>
</tr>
<tr>
<td>- the use of special technology from Sindelfingen plant at the Toledo 3 Assembly Plant and the use of Chrysler's digital simulation and modeling technology in order to optimally design the assembly process throughout the entire company;</td>
</tr>
<tr>
<td>- in the department H (Human Resources and Cultural Support) there was information about intercultural training. Here the news about any training sessions and meetings taking place was posted. Among others there were seminars about <em>Fit for DC, Cross Cultural Series</em> and <em>Global High Performance Teams</em>. In addition it was also advised how the global communication exchange was developing between the individual company locations, and how these were moving forward.</td>
</tr>
<tr>
<td><strong>Employee and Management Councils</strong></td>
</tr>
<tr>
<td>- existed mostly in Germany since it was more relevant there rather than in USA;</td>
</tr>
<tr>
<td>- every 4 weeks meetings were held between spokespersons of the leading management and the spokespersons of the works councils;</td>
</tr>
</tbody>
</table>

*Source: Gordes & Töpfer (2002), pp.156-157*
Language issue belonged to one of the major problems that emerged during post-merger integration. By decision of the Board of Management, English was supposed to be the main corporate language for the entire company but in practice it did not function. For the Daimler employees this resulted in the feeling of infuriation, particularly in the first months after merger, as majority of Daimler employees did not speak English fluently. The Chrysler employees, arriving to Germany, on the other side, could hardly speak German and it was not enough to follow important discussions and meetings.

It became the usual situation where during meeting of ten Daimler employees and one Chrysler employee the spoken language was English. The better Daimler employees mastered their English, the more Chrysler employees noticed that and got discouraged to master their German. The former senior level manager of human resources recalls that if a group of Daimler employees spoke German the Chrysler employees understood it as a separation and perceived it as a negative behavior.

The language issue also appeared to be a difficult process in regard to works councils. The participation of the trade union representation Union Auto Workers (UAW) in the U.S. was entirely different from works councils (IG Metall) participation in Germany. Thus the UAW defined and understood itself completely different from the IG Metall in Germany. As a result DaimlerChrysler set both German and English to be company official languages. Nevertheless "[...] the language problem was never solved!", admits senior manager, mentioned earlier. Moreover, due to two official languages all company publications were prepared in two languages. This resulted in double efforts and costs. Certain tools applied in the area of communication are presented below.

**Toolbox 2: Daimler-Benz Award of Excellence Contest**

One of the renowned projects, Daimler-Benz Award of Excellence contest was aimed at attracting the USA high schools students to visit Germany and Daimler. Fifty of the best candidates had a chance to spend three weeks in Germany. In 2000 this project was reclassified as a project targeted at employees' children of DaimlerChrysler explicitly. One could register own children in the age between twelve and eighteen years old and an exchange took place. The project was aimed at fostering integration and creation of mutual understanding.
Toolbox 3: The PMI success stories

Toolbox 3: The PMI success stories – communication tool in PMI

The PMI success stories were printed and distributed once per month within DaimlerChrysler in order to communicate all appropriate and applicable topics. This monthly report contained statements from each of the twelve "clusters" members of the Board of Management. The Board of Management (Vorstand) as well as all management personnel (Führungskräfte) had an access to this report and could comprehend the steps being made in the each individual branch of the company.

Toolbox 4: Successful tools in communication

Toolbox 4: Successful tools in communications

(1) the Global Communication Conferences (take place today at Daimler AG as well);
(2) the Global News Bureau, an internal virtual newsroom, where everything, including news on ongoing issues, was communicated. An important and necessary tool that worked very well (it functions at Daimler AG with a great success up to date, where all employees simultaneously could read the latest news from communication);
(3) conference calls and video conferences as very powerful tools;
(4) The DaimlerChrysler Times newspaper;
(5) internal Walk-By TV; initially existed on the Chrysler side, later also implemented by Daimler side;

As far as industrial relations of PMI at DaimlerChrysler are concerned, main parties were: the works council (Betriebsrat) as direct contact for corporate levels, the union (Gewerkschaft) - the IG Metall, and the United Automobile Workers (UAW), whose impact after the merger increased.

From its beginning in 1935 the United Auto Workers (UAW) in the USA was fighting primarily for the right to unionize workers but few decades later it became an agent for higher worker salaries, benefits and demanded more influence in management decisions taken at the Big 3 automakers: GM, Ford and Chrysler. The Canadian Auto Workers (CAW), on the other side, was formed as an independent union, later disaffiliated from the UAW over a dispute regarding negotiation tactics. In the event of DaimlerChrysler both unions started to cooperate again.

In Germany, the main union for the automotive industry is IG Metall. Virtually all Germany’s car workers are members, and though they have the right to strike, they hardly use it because there is an elaborate system of conflict resolution that allows
disputes to be settled without strike. In Germany the high wages and good working conditions for autoworkers are supported by IG Metall (Germany’s equivalent of UAW) and the German constitution, which allows for *works councils* in every factory, where management and employees collaborate on matters like shop floor conditions and work life. This guarantees cooperation between the two sides.

As part of the DaimlerChrysler merger the United Auto Workers (UAW) was given a seat on DaimlerChrysler’s Supervisory Board (*Aufsichtsrat*). "The Supervisory Board of DaimlerChrysler will consist of ten employees’ representatives, including a representative of senior management. IG-Metall in Germany and the Union of Automobile Workers (UAW) in the U.S. agreed that the UAW will nominate a representative for election to the Supervisory Board by the employees in Germany. The labor councils and their opportunities for participation and co-determination will continue to exist in the new DaimlerChrysler AG."\(^{40}\)

Previously the UAW had no representation on boards (*Vorstand*) of Ford, GM or Chrysler thus a seat on the European Workers Council for matters concerning DaimlerChrysler gave the UAW a unique position in comparison to GM or Ford by giving them more access to upper management.

In terms of industrial relations at DaimlerChrysler, the following specifics (differences and incompatibilities) of the merger are highlighted.

First, news of merger was unexpected to German workers. The IG Metall members were advised on upcoming merger through special announcement by Daimler’s VP Corporate Strategy and Management Board member at a works council vote in Stuttgart.

Second, UAW and IG Metall were characterized by different styles of operating: German unions could directly address important issues to works council and the Board of Management, whereas the UAW/CAW communicated through their union president what made the UAW/CAW operating style more political than IG Metall that is characterized by more independence and raising of important issues and discussions.

Third, UAW/CAW Labor Committee was more of a full time job position, whereas works council membership in Germany was a side job, not the primary function of the worker.

\(^{40}\) Daimler-Benz, *Information regarding the merger of Daimler-Benz and Chrysler*, p.43.
Fourth, training and education level of UAW/CAW members was not as advanced as those of IG Metall workers. The big difference was in trades education in Germany compared to America – in Germany there is a technical college (Fachhochschule) whereas in the USA it is more of a learning on the job approach, i.e., less professional and there is less employee loyalty to company in USA compared to Germany.

Fifth, the idea of the DaimlerChrysler merger was welcomed more positively by UAW/CAW employees rather than by German IG Metall workers. The Daimler’s products had a good quality reputation and many US/Canadian workers perceived merger as an opportunity to earn higher wages and receive more benefits. The overall impression of Chrysler by German unions on the other side was poor, characterized by low quality vehicles. The central question referred to strategic fit with the Mercedes-Benz brand. Therefore on the worker level from the very beginning there were different views on the merger and its results.

In order to address differences between the two sides and to advance the post-merger integration many actions were taken by the merged company’s Board of Management (Vorstand). Among other measures, German union members were sent to USA and Canada to meet UAW/CAW colleagues. As a result of cooperation within DaimlerChrysler a communication between UAW, CAW and company management largely improved. The exchange programs helped to improve cultural understanding; the company’s shuttle plane from Stuttgart to Detroit provided easy access for meetings and communications between both sides; the DaimlerChrysler TV in many languages available to all DaimlerChrysler offices and on satellite for viewing from home gave employees a look at different company businesses around the world to promote common company goals. Below certain specific tools in the area of industrial relations are presented.

**Toolbox 5: Global Youth Solidarity Project**

**TOOLBOX 5: Global Youth Solidarity Project**

An exchange program organized for young union workers under 30 years old from the U.S., Canada and Germany. Participants visited production facilities, learned union histories, companies’ histories and compared how the unions in both countries functioned. It served to promote transatlantic cooperation, exchange of experience and the acquisition of intercultural competence. As a result the project helped to build up a confidence among the unionized employees.
Toolbox 6: Youth Beyond Borders Project

The project was a 4-weeks exchange programme that took place every 2 years, interchangeably in the USA and in Germany. The project was targeted at employees’ children in the age of between 14-18 years old. Participants were chosen depending on the plant’s size and through the interview process with certain criteria.

Toolbox 7: Golden handcuffs

In the USA if the same job pays even a little bit more at the neighboring company then people quit their jobs and go to work for the other company (low job loyalty among the USA employees). DaimlerChrysler tried to prevent this with offering so-called golden handcuffs retirement plan (Betriebsrente) that was perceived as unique incentive.

As far as quality of work life is concerned specific topics such as diversity, gender equity, mobility and flexibility and any kind of harassment were addressed during PMI at DaimlerChrysler. According to former member of senior management team human resources, the post-merger integration in this respect did achieve its success.

Diversity was a relatively new concept in the way in which it was managed as strategic initiative at DaimlerChrysler, mainly because there was no such office at Daimler in Stuttgart similar to one at Chrysler in the USA. Such topics as the role of women, families and careers did not exist in the business structure on the Daimler side. Educating and talking to the leaders at Daimler about diversity, inclusion and their importance became one of the priorities of the PMI process.

The strategic management of diversity was aimed at meeting the challenge of how to create an environment where all employees feel comfortable to actually do their very best work as well as how to create an environment that is respectful of the differences that people bring with them to the workplace?

The DaimlerChrysler diversity management strategy embedded a broad scope of considered aspects, such as gender, ethnicity, marital status, disability, religion, sexuality and others.
Chrysler in that respect shared its best practices and know-how in terms of how to launch and manage the diversity issues. One of the initiatives organized for that purpose was bringing together a number of global companies that shared with Daimler some of their diversity initiatives and showed how diversity also helped their business to get the best talent.

The Global Diversity Office, established at DaimlerChrysler as a part of the PMI process, addressed many of the challenges and opportunities around diversity. The primary focus was role of women and advancement of women in the organization, the most often discussed topic. Although reluctant in the beginning the Daimler employees quickly respected the fact that women in USA hold high-level and key decision-making positions. Nevertheless it became a major issue in case of DaimlerChrysler as in Chrysler there were considerably more women in senior level positions than on the Daimler side.

**Toolbox 8: Job care facilities**

The aim was to address some of the needs of women in a workplace. There were offered an onsite job care facilities for women who returned to work from maternity leave. Their children could stay right onsite. Returned female employees had very flexible maternity and paternity leave policies.

Another significant matter that was seriously considered was issue of harassment, of any kind. An extensive training in sexual harassment prevention was offered to all employees - from the plant workers (through partnership with the union) up to senior management and leaders. The goal was to inform what the law requires of the company in this regard and to emphasize to the employees the intolerance and consequences of any kind of harassment, including termination of employment but also damage to the brand and company reputation. The process of complaints investigation was managed by a specific team that handled the end reviews and reviewed files and necessary documentation.

Initially changes that took place for many employees from the Daimler side were quite astonishing for both men and women. Awareness was quickly increased that harassment issues which were not properly solved could result in costly effects to company.
The figure 23 below represents the core aspects of work life at DaimlerChrysler.

**Figure 23: Quality of work life (QWL) at DaimlerChrysler AG**

There were also *flexibility/mobility* types of programs, where depending on the area of occupation employees were able to work from home on the particular day of the week. Referred to as a flextime or irregular start time, employees were allowed to start working later and work longer in the evening. All programs in place at Chrysler were transferred to the best of ability, information and knowledge to Daimler.

A focus was put on quotas and tracking the number of women and racial ethnic minorities in all areas and levels of the company. The challenge was to achieve and maintain the balance and a fair and equitable representation across the company up and down the hierarchy. Specific processes were put in place that helped to improve those numbers and to attract a certain kind of a talent.
3.5.3 Personnel Management during PMI at DaimlerChrysler AG

As far as retention of key employees is concerned, it appeared to be a problematic issue at DaimlerChrysler, particularly from the viewpoint of Daimler employees, mainly due to different perception of manager's mobility. The former public relations officer of DaimlerChrysler says: "The fluctuation on the Chrysler side was high and that was quite astonishing for Daimler employees. Even today, after over ten years, the fluctuation in Germany is still lower than back at Chrysler." This high fluctuation and mobility at Chrysler was largely influenced by the neighboring location of other top automotive companies, Ford and General Motors, all companies close by one another in Detroit, USA. Another reason was departure of management and taking an old team (or part of it) along, which also had a negative feedback in the press and media. Another fact that astonished Daimler employees was largely applied outsourcing by the Chrysler side in the area of human resources, something what for Daimler was rather unacceptable. Retention appeared to be a problem also on the higher management level. Many of Daimler employees refused to report to the higher level from Chrysler and vice versa. As an example this kind of dilemma took place in communications and legal departments, resulting in the departure of some managers.

Nevertheless, the merger of DaimlerChrysler was not aimed at possible lay-offs, as usually is the case during mergers: "[...] both companies are currently operating at full capacity and since the companies manufacture products for different market segments and are active in different markets, there is no need for lay-offs or plant closures. On the contrary, by harnessing synergies along the entire value chain, the products of DaimlerChrysler will become even more competitive. This will improve the outlook for unit sales, leading potentially to the creation of new jobs. Jobs will become more, rather than less, secure as a result of the merger."\(^{41}\)

Furthermore: "The merger will not only result in an increase in the number of people employed by the company but also in the significant improvement of individual international job prospects and career opportunities at DaimlerChrysler. (…) DaimlerChrysler’s main goal it to employ the best possible candidates in each areas of the company and is taking a global approach to hire this talent."\(^{42}\)

Also, J. Schrempp in one of his speeches during the shareholders’ meeting emphasized that synergies would not be dependent on rationalization but would result from

\(^{41}\) DaimlerChrysler, Information regarding the merger, p. 42.

\(^{42}\) DaimlerChrysler, Chronic of Merger.
additional growth: "Don’t add up numbers, create opportunities – that is the task our integration teams have been set. Thus the merger will create more jobs."\[^{43}\]

**Toolbox 9: Facilitation of understanding**

TOOLBOX 9: Facilitation of understanding

In order to facilitate understanding between employees of Chrysler and Daimler groups individually designed exchange programs took place, including brief information visits, projects lasting several months, and longer exchange programmes were organized for employees of all levels. Employees of Daimler and Chrysler along with their families had an opportunity to attend intercultural seminars abroad. Also, German and English language courses were available.

In terms of *evaluation and appraisal* of management performance both Daimler and Chrysler groups had their own systems. The question that occurred in the first place was if a common evaluation system should be developed, given that the topics of how to deal with employees, how to evaluate employees’ performance and how to give a feedback were not unified.

Moreover, Daimler encompassed certain levels of management that on the Chrysler side was missing, such as the leader of the plant. The analysis showed that at Chrysler the leader of the plant was responsible for the production processes only, whereas at Daimler before the merger this was a notable position that covered multiple responsibilities beyond the production (controlling, logistics, HR issues) that made the position’s value higher. The need to unify and to equalize both systems was unavoidable.

One of the priority tasks of the PMI Team was establishment of a new common appraisal system, Job Evaluation System (JESy) that would evaluate tasks and responsibilities of management at all levels on both Daimler and Chrysler sides.

\[^{43}\] op. cit. p. 4

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Post-merger integration. Problems in people management context.
Toolbox 10: Job Evaluation System (JESy)

The JESy was a system used to evaluate all management functions within DaimlerChrysler. Applied over the next years, it was also used to equalize the different levels/categories of management that existed at Daimler and Chrysler and therefore helped to unify categories according to defined criteria.

The JESy was also used to equalize the differences in levels and categories of management at Daimler and Chrysler and therefore unified it according to defined criteria. These criteria were defined in order to specify the range of tasks and responsibilities for each management level, such as senior manager, director, vice-president, etc. The JESy criteria and evaluation keywords are exhibited in the table 13 and table 14 respectively below.

Table 13: Job Evaluation System (JESy) Criteria

<table>
<thead>
<tr>
<th>SIZE AND BUSINESS IMPACT</th>
<th>&quot;Size and Business Impact&quot; measures how much influence the position has on the organizational unit's success (e.g. revenues)</th>
<th>• Size</th>
<th>• Influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCOPE</td>
<td>&quot;Scope&quot; measures the degree of freedom in decision-making and diversity as well as the type of the task</td>
<td>• Freedom to Act</td>
<td>• Diversity of Tasks</td>
</tr>
<tr>
<td>STRATEGIC INVOLLEMENT</td>
<td>&quot;Strategic Involvement&quot; measures to what extent creative and innovative solutions lead to the long-term success of unit</td>
<td>• Range</td>
<td>• Creativity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Concepts</td>
<td>• Complexity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Planning</td>
<td></td>
</tr>
<tr>
<td>INTERACTION</td>
<td>&quot;Interaction&quot; measures the level of difficulty and the type of communication in regards to the target and the communication partner</td>
<td>• Negotiations</td>
<td>• International</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Conflict Resolution</td>
<td>• Public Profile</td>
</tr>
<tr>
<td>KNOWLEDGE</td>
<td>&quot;Functional and Managerial Knowledge&quot; measures the required depth and breadth of knowledge, the extent of experience and qualification</td>
<td>• Management Skills</td>
<td>• Experience</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Expertise</td>
<td>• Qualification</td>
</tr>
</tbody>
</table>

Source: Daimler AG
Table 14: JESy Evaluation Keywords

<table>
<thead>
<tr>
<th>Size &amp; Business Impact</th>
<th>Size</th>
<th>Business Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Sizes of an organizational unit depending on revenue, cost or portfolio</td>
<td>- Impact of the position on the results of the respective organizational unit (full - none)</td>
</tr>
<tr>
<td>Scope</td>
<td>Responsibility, Degree of Freedom, Controlling</td>
<td>Scope, Diversity of Tasks, Depth &amp; Breadth</td>
</tr>
<tr>
<td></td>
<td>- Degree of freedom and consequences of action</td>
<td>- Role/range of function in the group</td>
</tr>
<tr>
<td></td>
<td>- Controlling based on targets and instructions</td>
<td>- Heterogeneity or homogeneity of the range of tasks</td>
</tr>
<tr>
<td></td>
<td>- Responsibility and entrepreneurship</td>
<td></td>
</tr>
<tr>
<td>Strategic Involvement</td>
<td>Range, Concepts, Planning</td>
<td>Creativity, Complexity</td>
</tr>
<tr>
<td></td>
<td>- Strategic influence on the group or its units</td>
<td>- Level of difficulty and intellectual capacity required to complete task</td>
</tr>
<tr>
<td></td>
<td>- Influence on business processes, methods, and models</td>
<td>- Novelty to work results and problem-solving required</td>
</tr>
<tr>
<td>Interaction</td>
<td>Negotiations, Conflict Solution</td>
<td>International, Representation</td>
</tr>
<tr>
<td></td>
<td>- Difficulty of negotiations as regards groups</td>
<td>- Diversity and frequency of international contacts</td>
</tr>
<tr>
<td></td>
<td>(and their expectations) and conflict resolution</td>
<td>- Public profile of the function</td>
</tr>
<tr>
<td></td>
<td>- Consequences</td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>Expertise, Management Ability</td>
<td>Experience (breadth &amp; depth), Qualification</td>
</tr>
<tr>
<td></td>
<td>- Experience of managing organizational units</td>
<td>- Required specialist knowledge</td>
</tr>
<tr>
<td></td>
<td>- Type of experience: scope and/or range (specialist fields)</td>
<td>- Adaptation to conditions (further training)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Type of training</td>
</tr>
</tbody>
</table>

Source: Daimler AG

Another issue was the attempt to equalize the hierarchical organizational structure of the company. As to designation there were the following categories: "A" was equal to the Chairman of the Board; "B" - members of the Board of Management; "C" - Directors with Star, taken over from Chrysler; followed by Ebene 1 (Level 1), Ebene 2 (Level 2), Ebene 3 (Level 3) and Ebene 4 (Level 4). The Chrysler employees worked with their own *bands*, such as Band 98, Band 97, Band 96, and Band 95. The Band 96 at Chrysler became equal to Level 2 at Daimler, Band 97 - Level 1, Band 98 - Level C. One of the former PMI Team members reflects on the intensity of this unification process: "There were many discussions and debates that lasted almost one year until a common set of categories for levels and bands unity were accepted by both groups."

Post-merger integration. Problems in people management context.
The table 15 presents the hierarchical structure at DaimlerChrysler.

**Table 15: Hierarchical structure at DaimlerChrysler.**

<table>
<thead>
<tr>
<th>DAIMLER</th>
<th>CHRYSLER</th>
</tr>
</thead>
<tbody>
<tr>
<td>A (Chairman of the Board)</td>
<td></td>
</tr>
<tr>
<td>B (Members of the Board of Management)</td>
<td></td>
</tr>
<tr>
<td>C (Directors with Star)</td>
<td></td>
</tr>
<tr>
<td>Ebene 1 (E1)</td>
<td>Band 97</td>
</tr>
<tr>
<td>Ebene 2 (E2)</td>
<td>Band 96</td>
</tr>
<tr>
<td>Ebene 3 (E3)</td>
<td>Band 94-95</td>
</tr>
<tr>
<td>Ebene 4 (E4)</td>
<td>Band 92-93</td>
</tr>
</tbody>
</table>

**Toolbox 11: JESy vs. LEAD-IT**

Additionally to JESy a supplemental system called LEAD-IT was started. While JESy was an assignment evaluation system, LEAD-IT was the IT system created to measure overall management performance, goals and objectives and management development according to the same set of principles. It became important to evaluate not only the tasks of executives but also to ensure that the performance of executives of Daimler and Chrysler globally were evaluated and rewarded according to the same set of principles along with an equal access to the advanced training and further development. Ultimately in post-merger time, Daimler developed a worldwide system for management personnel evaluation for job performance, development and compensation called LEAD.

The most challenging was the fact that it was not clear who would lead human resources in the future. Two equally designated members of the Board of Management (Daimler and Chrysler sides) resulted in a problem during the PMI process. The fact that two members of the Board of Management were equal in terms of covering human resources matters in the integration phase, a real integration was only possible with a great effort. Due to this plug-socket principle many issues remained undecided. "It is extremely important that the decision rigor is set very clearly and the escalation is very clearly defined. An unregulated escalation is very harmful for a post-merger integration process. This is a key issue!", concludes the former PMI Team member.
As far as compensation philosophy and policy is concerned, it was particularly difficult issue in the post-merger integration, in the area of top management specifically. Income levels in Germany and the USA were significantly different and the definition of how far the individual executives were operating, globally or only in respective country, was necessary.

"[...]DaimlerChrysler will ensure that management as well as white and blue collar workers receive competitive, performance-based remuneration. This applies not just to the monthly remuneration but also to the variable remuneration components, other payments and the participation of the employees in the company in the form of stock option plans and employee share schemes." 44

Also: "DaimlerChrysler will seek to attract and retain superior quality executive, managerial, technical and administrative personnel in every market in which it conducts activities and will generally implement compensation and benefit plans and policies necessary to achieve this objective. It is the specific intention that DaimlerChrysler AG’s compensation and benefit programs (including stock options) will be competitive with those provided generally in the American and German domestic automotive and automotive finance industries." 45

The compensation differences are best illustrated by the pay packages of the two co-CEOs. For 1997, the USD 11.5 million salary of R. Eaton was over five times higher than the USD 2 million pay of J. Schrempp. As a result of a merger the unification of separate compensation systems was unavoidable. Although as a German company, DaimlerChrysler was required to comply with both Securities and Exchange Commission (SEC) and German regulations, it was under no obligation to disclose its executive’s pay packages (Blasko et al., 2000). Nevertheless, one of the fillings with the SEC showed that the seventeen members of the Board of Management were paid a combined USD 40 million (with no specification by names). Therefore obviously the company was moving toward an American model of compensation (Forbes, 1999).

"The Daimler bonus and the Chrysler option plan were replaced with performance-based stock appreciation rights (a scheme of performance-based, stock-appreciation rights replaced the respective option plans). These rights carried the benefits of an option, but no shares change hands. Holders instead got a cash payout equal to the difference between the strike price and the stock price on the day of exercise.

44 Daimler-Benz, Information regarding the merger of Daimler-Benz and Chrysler, p. 42.
45 Daimler-Benz, Business Combination Daimler-Benz/Chrysler, p. 130
A global-standard pay system includes 80-250 top executive, while the pay of the other 440,000 employees will be set by region and will be competitive with similar companies operating in the same environment" (Forbes, 1999: 207).

The remuneration structure for the Board of Management was aimed to be internationally competitive. "Since management must be judged by entrepreneurial abilities and success, it is necessary to establish a remuneration structure more closely linked to the performance of the company and to active participation in opportunities and risks. This will include long-term share-based remuneration systems such as stock option plans. [...] remuneration systems are characterized by a high variable component in the overall remuneration. They offer the opportunity for above-average remuneration for above-average company and employee performance, but at the same time for reduced remuneration on occasions when success is not achieved. These remuneration systems for management are an important prerequisite for the success of the merger, since the new company need to strengthen its attractiveness for management in both Europe and the USA."46

The matter of equalizing compensation levels was a major problem during PMI. The dilemma was whether to lower compensation for Chrysler employees or to increase it for Daimler employees. "This was an endless, very, very difficult and very conflicting process", admits the former senior manager involved in human resources issues.

Toolbox 12: Hearing

**TOOLBOX 12: Hearing - how to solve a compensation dilemma?**

In order to solve a dilemma between Daimler and Chrysler compensation schemes a hearing of experts in the area of compensation took place. One of the invited experts, Prof. Martin Hilb from the University of St. Gallen (HSG), explains that the main task of the hearing was to provide solutions on to how to balance and unify salary levels of both groups, particularly in the event when salaries of German executives were significantly lower than salaries of the same level American executives. One of the solutions proposed, but not chosen, was to increase the salary level for Daimler executives and transfer them to the USA, which would not affect salary market and would prevent negative reactions heard from employees and works council of DaimlerChrysler. In reality the salary level of Daimler executives reached the level of Chrysler executives that influenced salary market for CEO in Germany.

46 Daimler-Benz, *Information regarding the merger of Daimler-Benz and Chrysler*, p. 42.
The figure 24 below illustrates the remuneration in details for the members of the Board of Management at DaimlerChrysler.

**Figure 24: Remuneration of the Board of Management at DaimlerChrysler**

![Remuneration Diagram]


"DaimlerChrysler shall provide to current and former employees of both Chrysler and Daimler compensation and benefits that are at least as favorable in the aggregate as the compensation and benefits they were entitled to receive immediately prior to the Effective Time (such period, 'Initial Period'), including, without limitations, benefits pursuant to pension plans, saving plans, medical plans and programs, lay-off policies, deferred compensation arrangements and retiree benefit plans, policies and arrangements. All benefits shall be provided in accordance with the applicable collective bargaining or other labor agreements."

47 Daimler-Benz, Business Combination Daimler-Benz/Chrysler, p. 130.
As far a succession planning is concerned, a career planning and development of junior employees were main concerns. The Corporate University was established, headed by Chrysler employee. The Corporate University was targeted at employees, qualification improvement of internal staff, facilitation of personal and hierarchical development, and implementation of training events both in Germany and in USA. The DaimlerChrysler Corporate University meant to bring closer the executives and leaders. Values of running advanced management training according to common standards and combining it with networking were defined (ManagerSeminare, 2008).

Some special programs for the management Level 2 (and potential candidates for the Level 2) and Level 1 were launched. The DaimlerChrysler Seminar was targeted at candidates for management Level 3 and was developed together with Chrysler side in the expectation to establish a common understanding and implications for junior staff level. In the opinion of former PMI Team member, "[...] the process of staff development within Corporate University was not that effective, particularly the mid-management level did not profit out of it." As a result, the Corporate University activities failed, largely due to two reasons: different mentalities of Daimler and Chrysler employees and long travel distances.

The central department that dealt with issues of succession planning and management development was Executive Management Department (EMD) that is still active at today's Daimler AG. It was initiated to recognize potential and to guide management promotion through the ranks up to the Board of Management.

**Toolbox 13: Career development**

<table>
<thead>
<tr>
<th>TOOLBOX 13: Tools for career development</th>
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</thead>
<tbody>
<tr>
<td>- Intercultural program: seminars and language courses developed and offered (in 1998: 3’500 German employees were enrolled in 750 English language courses);</td>
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<tr>
<td>- DaimlerChrysler Corporate University;</td>
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<tr>
<td>- Global Exchange Program: 15 managers exchanged (as of May 1999);</td>
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<tr>
<td>- DaimlerChrysler Fund: established to promote transatlantic relationship; one million dollar annual budget, supports exchange program of employees’ children.</td>
</tr>
</tbody>
</table>

The table 16 below presents an overview of identified tools and toolboxes described above.
Table 16: Toolboxes overview

<table>
<thead>
<tr>
<th>TOOLBOXES</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
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<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERFORMANCE Management</td>
<td>Leadership</td>
<td>The PMI Success Stories</td>
<td>Global Youth Solidarity Programme</td>
<td>Youth Beyond Borders Project</td>
<td>Job Care Facilities</td>
<td>Golden Handcuffs</td>
<td>The Daimler Benz Award of Excellence Contests</td>
<td>The Day One Kit Box</td>
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<td></td>
<td>Communication</td>
<td>Technical tools</td>
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<td>Industrial relations</td>
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<td>Quality of work life</td>
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<tr>
<td>PERSONNEL Management</td>
<td>Retention of key employees</td>
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<td>Appraisal</td>
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<td>Reward</td>
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<td></td>
<td>Succession planning</td>
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Post-merger integration. Problems in people management context.
3.5.4 Identification of problems in PMI and their sources

As a result of the present research the following table 17 presents a set of identified problems and their stressors that emerged during PMI process at DaimlerChrysler AG.

<table>
<thead>
<tr>
<th>Non-People Related Aspects</th>
<th>Problematic areas</th>
<th>Main source of problem / stressor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- increase in oil prices negatively affected sales of Chrysler Group vehicles due to products known for high fuel consumption;</td>
<td><strong>external events</strong></td>
</tr>
<tr>
<td></td>
<td>- discrepancies in working styles at Chrysler and Daimler (managing paper work); (see pp. 137-140)</td>
<td><strong>intergroup conflict</strong></td>
</tr>
<tr>
<td></td>
<td>- no know-how sharing among Daimler and Chrysler; little technology sharing; (see p. 109)</td>
<td><strong>loss of identity</strong></td>
</tr>
<tr>
<td></td>
<td>- unfavorable value creation in PMI performance (S&amp;P, merger talks with Nissan); (see p. 98)</td>
<td><strong>external events</strong></td>
</tr>
<tr>
<td></td>
<td>- less synergetic potential than expected in the product/ market sides/ brands;</td>
<td><strong>intergroup conflict</strong></td>
</tr>
<tr>
<td></td>
<td>- gap in technology: Daimler technology too expensive for Chrysler solution;</td>
<td><strong>loss of identity</strong></td>
</tr>
<tr>
<td></td>
<td>- differences in working styles in terms of decision-making processes (Daimler – bureaucratic, approval of higher management level, Chrysler – encouraged lower level management to be proactive); (see pp. 137-140)</td>
<td><strong>intergroup conflict</strong></td>
</tr>
<tr>
<td></td>
<td>- different organizational structures: Daimler – engineering-centered company, Chrysler - sales and marketing focused48; (see p. 137)</td>
<td><strong>intergroup conflict</strong></td>
</tr>
<tr>
<td></td>
<td>- development of us versus them mentality;</td>
<td><strong>uncertainty, perceived unfairness</strong></td>
</tr>
<tr>
<td></td>
<td>- product strategy – Daimler and Chrysler had two different customer target groups and the brands had different identities;</td>
<td><strong>loss of identity</strong></td>
</tr>
<tr>
<td></td>
<td>- positioning of brands and product marketing was difficult – the brands could not be combined or integrated;</td>
<td><strong>uncertainty, loss of identity</strong></td>
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<tr>
<td></td>
<td>- not properly executed due diligence; therefore not all issues were addressed at time of merger</td>
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### Post-merger integration. Problems in people management context.

<table>
<thead>
<tr>
<th>Performance Management</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Leadership</strong></td>
<td></td>
</tr>
<tr>
<td>- different management and execution behavior (decision of Chrysler Board Member was treated with highest respect, whereas on the Daimler side a discussion or argument could have been started);</td>
<td>intergroup conflict</td>
</tr>
<tr>
<td>- mismanagement and problem of managerial fit; (see p. 110)</td>
<td>role ambiguity, intergroup conflict</td>
</tr>
<tr>
<td>- differences in decision-making processes: Daimler – approved by top management, Chrysler – encouraged to take initiative and decide; (see p. 112)</td>
<td>intergroup conflict</td>
</tr>
<tr>
<td>- strong leaders on both sides – no wish of power-sharing; (see p. 111)</td>
<td>role conflict</td>
</tr>
<tr>
<td>- incorrect designation of management to lead mutual departments and resorts;</td>
<td>perceived unfairness, role ambiguity</td>
</tr>
<tr>
<td>- not sufficient follow-up of PMI execution process by leadership; (see. p. 109)</td>
<td>role ambiguity, job environment changes</td>
</tr>
<tr>
<td>- gap in a planning/execution – planning was done by one group of people and an execution – by other;</td>
<td>role ambiguity, job environment changes</td>
</tr>
<tr>
<td>- not putting enough pressure on people responsible for integration execution (absence of 'watchdogs');</td>
<td>job environment changes</td>
</tr>
<tr>
<td>- many integration projects were only 'done on paper'; (see p. 110)</td>
<td>role ambiguity, role conflict</td>
</tr>
<tr>
<td>- different culture of thinking;</td>
<td>intergroup conflict</td>
</tr>
<tr>
<td>- creation of Brand Bible (Marken-Bibel), aimed at protecting Mercedes brand; prohibited exchange of</td>
<td>loss of identity</td>
</tr>
</tbody>
</table>

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49 Chrysler did not have long term plans for these situations due to focus on large engine pickups/SUVs for profits and not small cars, smaller engines with less fuel consumption and less CO2 output;  
50 Seo & Hill (2005).
### Communication

<table>
<thead>
<tr>
<th>Ideas and know-how among Chrysler and Daimler; (see pp. 108-109)</th>
<th>role ambiguity, role conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>- differing interpretations of Board members’ roles</strong>&lt;sup&gt;51&lt;/sup&gt;,</td>
<td></td>
</tr>
<tr>
<td><strong>- disagreements on PMI priorities in terms of communication</strong> (mission/vision vs. how to inform);</td>
<td>intergroup conflict</td>
</tr>
<tr>
<td><strong>- not enough concrete role models</strong> available on how to integrate;</td>
<td>uncertainty, job environment changes</td>
</tr>
<tr>
<td><strong>- language issue was an annoyance</strong> on Daimler side; Chrysler employees did not speak German, majority of Daimler employees did not speak English fluently (during PMI); (see p. 115)</td>
<td>intergroup conflict, loss of identity, uncertainty</td>
</tr>
<tr>
<td><strong>- non-consistent communication on integration</strong> (lower management employees in the USA were not provided with information on integration);</td>
<td>role ambiguity, role conflict</td>
</tr>
<tr>
<td><strong>- due to two official languages a double effort of producing communication materials;</strong> (see p. 115)</td>
<td>job environment changes</td>
</tr>
</tbody>
</table>

### Industrial relations

<table>
<thead>
<tr>
<th>Language problem and modus operandi of trade union representation UAW in USA was entirely different from works councils participation in Germany and IG Metall way of business; (see pp. 116-118)</th>
<th>intergroup conflict, role ambiguity, role conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>- surprising merger; no choice was given (unions might have voted against the merger);</strong> (see p.117)</td>
<td>loss of identity</td>
</tr>
<tr>
<td><strong>- strong influence of UAW on the Chrysler side, also regarding hiring; differences with Daimler side;</strong></td>
<td>intergroup conflict, role ambiguity, role conflict</td>
</tr>
<tr>
<td><strong>- low job loyalty with Chrysler employees compared to higher loyalty Daimler employees;</strong></td>
<td>intergroup conflict</td>
</tr>
<tr>
<td><strong>- training on the job program in the USA vs. long education process for learning a skill in Germany;</strong> (see p. 118)</td>
<td>intergroup conflict, role ambiguity</td>
</tr>
<tr>
<td><strong>- cultural, working background &amp; educational/training differences between German workers and colleagues in UAW/CAW – these differences develop over many years and cannot be changed in a short time;</strong></td>
<td>intergroup conflict, role ambiguity</td>
</tr>
</tbody>
</table>

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<sup>51</sup> German Stock Corporation Law stipulates that management board members should have essentially similar levels of responsibility. Uncommon appeared to be the fact that US convention and interpretations from it caused situations when Chrysler counterparts reported to a colleague, meaning they were subordinate in terms of their understanding of management structure, even though they were equal under company law and responsible mainly to the Supervisory Board (Gentz, 2001).

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Post-merger integration. Problems in people management context.
### Post-merger integration. Problems in people management context.

<table>
<thead>
<tr>
<th>Quality of work life</th>
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</thead>
<tbody>
<tr>
<td>- different styles of operating&lt;sup&gt;52&lt;/sup&gt;; (see p. 117)</td>
<td>intergroup conflict</td>
</tr>
<tr>
<td>- UAW/CAW Labor Committee more of a full time job position, whereas works council membership in Germany is a side job, not primary function of the worker&lt;sup&gt;53&lt;/sup&gt;; (see p. 117)</td>
<td>role ambiguity, role conflict</td>
</tr>
<tr>
<td>- the overall impression of Chrysler by German unions was poor, low quality vehicles and there was a question of how does Chrysler fit with Daimler as a brand (strategic fit); (see pp. 116-118)</td>
<td>uncertainty</td>
</tr>
<tr>
<td>- big differences in learning trades in Germany compared to the USA&lt;sup&gt;54&lt;/sup&gt;; (see pp. 116-118)</td>
<td>intergroup conflict</td>
</tr>
<tr>
<td>- workers in the USA&lt;sup&gt;55&lt;/sup&gt; took longer to get familiar with job requirements and become efficient compared to German workers due to differences in education levels, training; (see pp. 116-118)</td>
<td>role ambiguity, role conflict</td>
</tr>
<tr>
<td>- diversity and inclusion management was an emergent area for Daimler (strong positioning on the Chrysler side); non-existing before; (see p. 119)</td>
<td>job environment changes</td>
</tr>
<tr>
<td>- differences in perceptions of a role of women in the organization (very strong on Chrysler side, new issue for Daimler); (see p. 120)</td>
<td>role ambiguity, role conflict</td>
</tr>
<tr>
<td>- harassment issues comparatively unknown on Daimler side; (see p. 120)</td>
<td>job environment changes, uncertainty</td>
</tr>
<tr>
<td>- mobility issues: German/European management more willing to relocate and work in international assignments; American management less so (if yes, than only for shorter time period); (see p. 121)</td>
<td>role ambiguity</td>
</tr>
</tbody>
</table>

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<sup>52</sup> German unions could speak directly to works council and to the Board of Management in Stuttgart to address important issues. But UAW/CAW had to speak via their union president - UAW/CAW workers will never contradict their president, thus if the UAW president does not mention it to the Board of Management there is no communication (UAW/CAW style of operating was more political). German unions have more independence and would mention important issues at works council meetings whereas UAW/CAW members might not mention subjects due to political reasons or because union president decided against it;

<sup>53</sup> Shows that UAW/CAW is more political than German union;

<sup>54</sup> In Germany there is Fachhochschule and other training but in the USA it is more learning on the job, i.e. less professional; also there is less employee loyalty to company in the USA compared to Germany;

<sup>55</sup> UAW in northern USA; non-union in Mercedes-Benz Alabama plant.
### PERSONNEL MANAGEMENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Retention** | - departure of Chrysler top executives and engineers\(^{56}\); perceived unfairness, role conflict  
- outsourcing largely used by Chrysler side, Daimler found it unacceptable (needed some time to get used to it); (see p. 122) job environment changes  
- reporting dilemma - problem on executive level - the dilemma of reporting to higher levels from Chrysler (for Daimler employees) and reversely; (see p. 122) perceived unfairness |
| **Appraisal** | - issues remained undecided due to two equal members of the Board of Management responsible for Human Resources issues; no central point to escalate issues; (see p. 126) role ambiguity, role conflict  
- absence of unified systems for evaluation and appraisal; (see p. 123) intergroup conflict  
- strong differences between both groups in terms of management category/level and its responsibilities; followed by unification and creation of one hierarchical organizational structure; (see pp. 124-126) |
| **Compensation** | - multiple differences in compensation policies and pay scales at Chrysler (low fix, higher variable) and Daimler (high fix, lower variable); followed by equalization of compensation schemes and policies; (see pp.127-129) role ambiguity, intergroup conflict  
- negative reactions from employees and works council as a result of increased compensations for Daimler top management; (see p. 128) perceived unfairness, intergroup conflict |
| **Succession planning** | - failed Corporate University, due to different mentalities on both sides and long travel distances; (see p. 130) job environment changes |

\(^{56}\) particularly in the case of DaimlerChrysler the departure of top executives was caused by clashes in corporate cultures and compensation schemes;

Post-merger integration. Problems in people management context.
3.6 Conclusions from the specific empirical part

3.6.1 Summary of analysis

The objective of the empirical part of this research was to identify problematic areas, issues and challenges that emerge in a people context during post-merger integration. Attention has also been given to identification of specific stressors, the sources of these problems. These stressors refer to theories concerning merger process and people’s reactions to organizational change. These theories are: anxiety theory, social identity theory, organizational justice theory, role conflict theory, and job characteristics theory.

The outcome of the empirical research shows that the most sensitive area in terms of problems and differences appeared to be performance management with its leadership aspect, and followed by industrial relations. The strongest identified stressors that caused an emergence of problems, on the other side, were intergroup conflict, role ambiguity and role conflict, followed by the loss of identity.

Research shows that intergroup conflict was a source of the majority of internal disputes, arguments and differences of opinions as each side, Daimler and Chrysler, tried to force its own way of doing business or managing operations. This particularly was present in the leadership context and in terms of the decision-making process.

One of the conclusions of this empirical part is that the PMI process at DaimlerChrysler was indeed successful, but only to certain extent. The integration process was 'done on paper' and on the executive management level the process succeeded. In reality, on the operational level among lower management and non-management employees very little happened in terms of integrating both groups.

The enormous differences that existed between the Chrysler and Daimler groups led to serious problems in the merger of DaimlerChrysler. Differences concerned almost each field of combined business: organizational culture, working styles, languages, decision-making processes, the 'marketing vs. engineering' nature of entities, mentalities, communication habits, management behavior, not to mention different product segments and customer target groups of Chrysler and Daimler.

As the former executive involved in international sales and marketing at DaimlerChrysler would later admit: "The idea to bring those two companies together was a great thing, and people behind it had vision – for tomorrow, the day after tomorrow [...] getting into the world we are in today."
Today Daimler successfully cooperates with Renault-Nissan, selling its own engines - something that at the time of post-merger integration at DaimlerChrysler was unthinkable. "The basic failure in this was leadership", concludes top personnel involved in international sales and marketing. There also existed a managerial misfit that was not confronted properly: "In retrospect [...] a more consistent and focused attention on integration process could have enabled Schrempp to detect in the right time the issue of managerial misfit at DaimlerChrysler" (Tikhomirov & Spangler, 2010: 58).

Today the VW Group integrates premium brands such as Porsche and Audi and shares parts among its brands in 60-80% of the vehicle lines. It proves that the exchange between brands can be successful and can accelerate growth. Thus another conclusion is that the merger between Daimler and Chrysler happened five to ten years too early so it failed in execution, when Daimler and Chrysler were not prepared or ready to walk out of their comfort zones. There was no preparedness on both sides to give up control and no preparedness to accept J. Schrempp’s vision of creating a new world company.

As Chrysler's post-merger situation worsened due to the high average fuel consumption of its vehicles, implementation of new CO2 regulations, and the 9/11 attacks, the Daimler side offered little of its technical and financial dominance to support Chrysler. Instead an environment with few interlinks and synergy creation was formed. This leads to another interesting insight: perhaps the basic mistake was calling it the merger of equals when perhaps a partnership based on senior and junior partners would have enabled a much smoother integration process and better cooperation. The merger between Daimler and Chrysler had potential as the Fiat-Chrysler merger proves that the senior-junior partnership can succeed.

From another perspective, however, perhaps the DaimlerChrysler merger was simply unnecessary and served to meet personal interests of involved parties, what might be assumed by the almost immediate post-merger departure of Robert Eaton. After all, in the 1990s Chrysler was considered by Forbes to be the best run company with highest profits per unit (Chicago Tribune, 1997).

The member of senior management team responsible for human resources concluded: "This merger process and outcome was anything but a success story." And although the PMI Team was dissolved in 2000, completing the official post-merger integration process, team members and employees continued to work with a sense of shortcoming.
that remained present until DaimlerChrysler realignment in 2007. The integration process in daily business was never completed.

Despite the multiple problems and difficulties that occur during post-merger integration in people context at DaimlerChrysler, numerous improvements have been implemented. A standardized LEAD performance evaluation system worldwide for management was created, focused on goals, objectives and company success; the management compensation systems, although with multiple disputes, was harmonized worldwide; a strong focus on success and goals was given; in terms of succession planning the Executive Management Development (EMD) was founded as well as a number of successful exchange programs and projects in the area of diversity issues, and female management potential was particularly reviewed and implemented in certain cases.

The former member of the Board of Management responsible for Human Resources concludes that one of the most important lessons learned from the post-merger integration between Daimler and Chrysler is that "despite a top team and a competitive leadership, one cannot turn around a strategic gap in the automotive industry built up over many years. With more money and more time (5 years at least) the Chrysler turnaround would have been successful." Also, he adds: "We learned to involve all employees in the company's success. For management - through variable compensation; for non-management employees - through voluntary profit sharing, by giving employees rights to vote yes or no if they want to receive a variable profit sharing or just a percentage raise."

There are numerous reasons why the DaimlerChrysler merger did not succeed. The merger was a total surprise to most workers and management employees at Daimler-Benz and at Chrysler when it was announced. Many Germans saw no reason or need for it because Chrysler had a bad reputation in automotive world, and the strategic fit of Mercedes-Benz with Chrysler was unclear and not communicated. Many Americans saw no need for it since Chrysler was already very successful and profitable at the time. Chrysler had been investing heavily in product improvements throughout the 1990’s. "The areas where Chrysler benefited most from the merger with Daimler were market development and dealer/distributor network development. Chrysler-Jeep brands were offered to many Mercedes-Benz international distributors worldwide. This gave Chrysler-Jeep exposure to the markets which the Chrysler-

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57 But not in the USA where brands and dealers remained separated.
Jeep brands could not have attained if Chrysler had tried alone to grow the network. Sales increased significantly in markets where Chrysler previously barely had a presence. Parts and service were also combined as was parts warehousing and delivery, providing Chrysler with excellent stocks of parts for its international markets. This also gave Chrysler-Jeep a sales bonus since traditional European customers who were less inclined to try an American brand were less nervous about their vehicle purchase if they bought it from the same distributor/dealer that sold Mercedes-Benz", explains former manager of Chrysler side engaged in international sales operations.

In terms of industrial relations, differences on the cultural, working and educational/training background between German workers and UAW/CAW workers could not be changed in a short time. The UAW did not seem to value the added participation in the Board of Management which DaimlerChrysler afforded it – the UAW’s concentration was always higher wages and more benefits for its workers, regardless of company’s performance and cost. This UAW attitude lasted until the contract negotiations in 2007 when D. Zetsche and DaimlerChrysler’s Board of Management refused to accept the UAW conditions, resulted in the beginning of the end of DaimlerChrysler AG.

### 3.6.2 DaimlerChrysler vs. FCA

The main differences between the DaimlerChrysler merger and Fiat-Chrysler merger can be classified in three main areas: compatibility, necessity and execution.

1. **Compatibility**

Daimler is a multinational manufacturer of premium passenger cars, vans, heavy trucks and buses with industrial locations in Europe, Africa, North & South America, and Asia. Daimler sells more than 50 percent of its passenger car production outside of Europe.

Chrysler is a multi-national manufacturer of larger mass market (non-premium) passenger cars, SUVs and pickup trucks with more than 90 percent of all production sold in North America and little market presence in Europe, South America, Asia and Africa.

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58 RCENA/5 markets were perfect example of the Chrysler-Jeep sales growth in Central-Eastern Europe, Africa & Israel. In Israel Chrysler-Jeep vehicles are sold by different distributor from Mercedes-Benz.
Fiat is a multi-national manufacturer of luxury and premium brands Ferrari and Maserati, and smaller mass-market (non-premium) Fiat cars, trucks, vans, IVECO heavy trucks and industrial engines (Fiat Powertrain) and equipment (Case-New Holland). Fiat is the largest brand in Italy and one of the larger brands in Europe and South America with limited presence in Africa, Asia, and North America.

Fiat and Chrysler share a better strategic fit than did Daimler-Benz and Chrysler, because both Fiat and Chrysler sell to mass market segments. Fiat’s focus is small cars in Europe and South America whereas Chrysler’s focus is mid-size, large, SUV and pickup trucks in the USA.

(2) Necessity

One of the conclusions is that Daimler-Benz’s merger with Chrysler was not a necessary one. In 1998 both companies were in excellent financial shape, both had excellent products for sale in world markets and did not need each another to succeed.

After the 2007 sale of Chrysler to Cerberus Capital Management Chrysler tried to 'go it alone'. Then the financial crisis started in September 2008 and the world fuel prices kept increasing. It suddenly became clear that Chrysler needed a partner to survive long term. As a result the US government took seriously Sergio Marchionne’s offer of Fiat small car expertise in exchange for 20 percent of Chrysler with conditions for higher ownership percentage. The bankruptcy of Chrysler and General Motors left the US government with the choice of allowing both automakers to go bankrupt and create thousands of unemployed persons in the middle of a recession, or lending money to the automakers and managing their bankruptcies.

The US government defined the following criteria for takeover of Chrysler59:

- In 2009 Fiat agreed with US government to take 20 percent of Chrysler in exchange for providing technology and development to Chrysler as payment. Additional 15 percent was available through further technology agreements;
- UAW’s Retiree Medical Benefits Trust VEBA (Voluntary Employee Beneficiary Association) receives 41.5 percent of Chrysler under US government in exchange for ca. USD 4 billion payments owed by Chrysler to VEBA;

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59http://en.wikipedia.org/wiki/Fiat#Acquisition_of_Chrysler

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Fiat increases ownership percentage by producing efficient engines in the USA, selling a 40mpg car in USA, payoff US and Canadian government loans.

Due to the fact that all conditions were met, as of January 2014 Fiat owns 100 percent of Chrysler after it purchased the remaining 41.5 percent from VEBA for USD 4.35 billion.

(3) Execution

After DaimlerChrysler’s Board of Management nominated Chrysler executive D. Zetsche to become the CEO of DaimlerChrysler in 2005, further merger actions between Daimler and Chrysler sides went unnoticed. Mercedes-Benz had its own products, network and sales teams and Chrysler had its own. The merger essentially stopped until Daimler agreed to sell Chrysler to Cerberus Capital Management in May 2007.

In contrast, Fiat under Sergio Marchionne was determined to merge the two entities as much as possible and as soon as possible to take advantage of all synergies possible. A merger on such a grand scale certainly has its challenges (e.g., cultural, systematic, and operational) yet the prime directive from the top is unwavering: to bring these two companies together and build excellent products. Up to date, the results of cooperation Chrysler-Fiat are reflected in excellent products, positive press and more than forty consecutive months of year-over-year (YOY) sales increases of Chrysler products in USA.
4 Concluding part

4.1 Implications for management practice

The findings of this research have important implications from the perspective of executives involved in a merger process. This research illustrates how merged companies carry out the post-merger integration process and which problems emerge during PMI in people management context. This research was limited to the overall examination of both performance and personnel management that encompasses eight significant aspects of people context, derived from the 4P Model of Glocal Management of Human Resources. This thesis presents the holistic view of the PMI process and its key aspects, and focuses on concrete problems that occur within each aspect during post-merger integration as much as investigates the specific sources of these problems (merger stressors). This research suggests therefore that in order to diminish emergence of potential problems during PMI process it is necessary to realize the importance of merger stressors and their role in creating problems. As the merger analyzed in this thesis was an example of international merger, a particular attention must be given to the intergroup conflict stressor that occurs in the background of cooperation between two groups, different by mentality and working styles, as differences in working styles usually have a negative impact on merger performance and make up very sensitive and controversial issues (Datta, 1991).

The case of DaimlerChrysler showed how intergroup conflict stressor was the main reason for a majority of problems the company faced during the PMI process, followed by a feeling of loss of identity and role ambiguity and conflict. Further, in the light of the recent merger between Chrysler and Fiat a focus must be given to decreasing the emergence of these stressors and therefore to providing sensible solutions to the situations where intergroup conflicts or sense of loss of identity may occur.

This research reveals the process of post-merger integration as a change process, emphasizes the significance of the people context and their input into the process as well as identifies a range of problems that emerge in PMI. Also some attention is given to identification of certain tools which helps to smooth the process of integration. As a result of this research the following main recommendations are derived:

- In terms of leadership aspect it is recommended to guarantee not only a thorough systematic planning of the integration process but most importantly to enable a consecutive follow-up and control of the execution of the process.
Identified quickly, leadership should be aware of major stressors, particularly of *intergroup conflict* and *loss of identity*, and problems they may cause, and therefore act with purpose to diminish their emergence; a charismatic (but also neo-charismatic) leadership features particularly to help meet interests of key stakeholders during PMI change. As far as the Board of Management is concerned, two equal members in charge of the same area will not succeed - one Board Member is highly recommended in order to escalate and accelerate a decision-making process;

- As far as communication is concerned, it is necessary to establish an open, honest and up-to-date communication policy. In the case of DaimlerChrysler although described as successful process by Daimler side, lower-management Chrysler employees in the USA were not aware or informed on the latest updates regarding the PMI process (as indicated in one of the interviews);

- In the context of industrial relations it is advised that all stakeholders, particularly employees and their representation bodies (i.e., works councils), have an active participation in decision-making process especially in the event of such an enormous change as merger; separation of stakeholders from the process cause emergence of additional stressors such as *anxiety* or *uncertainty*, leading to occurrence of further problems;

- As far as quality of work life is concerned, leadership must pay attention to issues that create healthy working environment for merged groups and ensure a possibility for maintaining a work-life balance. Further, a role of women empowerment and diversity matters still remain among top priorities in regard to quality of work life. Also, flexibility and mobility programs, department that deals with any kind of harassment issues or complaints must be in place;

- As to personnel management, in terms of retention of key employees and talents, a merger does not necessarily mean a reduction of staff. Departures of key executives, as it took place on the Chrysler side, were caused by emergence of stressors such as *perceived uncertainty* and *role ambiguity* in a newly merged company. Management must be advised to particularly value younger employees and to facilitate change-related difficulties in their daily business;
In the context of evaluation and appraisal as much as in terms of compensation and reward policies, it is recommended to establish unified systems with equal objectives and criteria. Although through a rough process of disputes and discussions, DaimlerChrysler was able to create a successful evaluation JESy tool. In case of compensation and reward policies cultural and legal issues of both groups must be assessed and adjusted to the legal requirements of the country the company has its headquarters; for this a comprehensive due diligence is required;

As far as succession planning is concerned, an attention must be given to career development opportunities. In this context learning facilities, promotional plan and clear career development paths for management and employees who stay in a newly merged company should be defined and offered.

In summary, each merger and following post-merger integration is an individual process where also custom-tailored actions and tools are recommended and advised. There is no recipe on how to succeed in PMI. There are however common core aspects that smooth integration among employees regardless of a merger nature and motives. Leadership makes the integration. It must recognize the potential of employees within both groups, that it is people who create the value and who stand behind achieving the synergies, as much as to realize the impact of merger stressors that lead to multiple problems within a new company. Although different in execution, a successful post-merger integration in people context always leans on strong leadership and reasonable decisions, followed by a truthful communication and active participation.

4.2 Recommendations for future research

This research reveals several insights which offer new research opportunities in the area of post-merger integration and people context in particular. Based on the concepts provided throughout this research, the following suggestions represent future directions which could be elaborated and extended in order to gain even deeper insights about problems and challenges of people PMI and stressors that cause them:

(1) This research has identified taxonomy of problems that occurred during post-merger integration in people context. The taxonomy was enhanced by adding specific stressors that cause emergence of certain problems. For future research
and for management it would be valuable to investigate additional stressors present in theories and to indicate the problems they might cause during post-merger integration; it would also be interesting to examine how management could diminish the occurrence of such stressors;

(2) A successful and smooth execution of post-merger integration is not possible without application of specific tools. Therefore it would be worthwhile to investigate and identify a taxonomy of tools applied during integration and to assess a degree to which these tools are efficient;

(3) In the light of recent merger between Chrysler and Fiat it would be most interesting to investigate both cases of post-merger integration processes at DaimlerChrysler and FCA, providing a ground for building theory of success and failure ('polar cases'). Also, since Chrysler is involved in both mergers it would be intriguing to conduct a comparative analysis of Chrysler’s performance in both mergers.

In summary, this thesis addresses several aspects of people post-merger integration process with a focus on problems and challenges. Despite an extensive literature on people integration process, certain areas still remain unexplored, are limited or outdated and a thorough up to-date research is constantly required.
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