Handbook of Research in International Human Resource Management, Second Edition

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Northampton, MA 01060, USA
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Email: elgarinfo@e-elgar.com
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ISBN 978-1-78195-311-2

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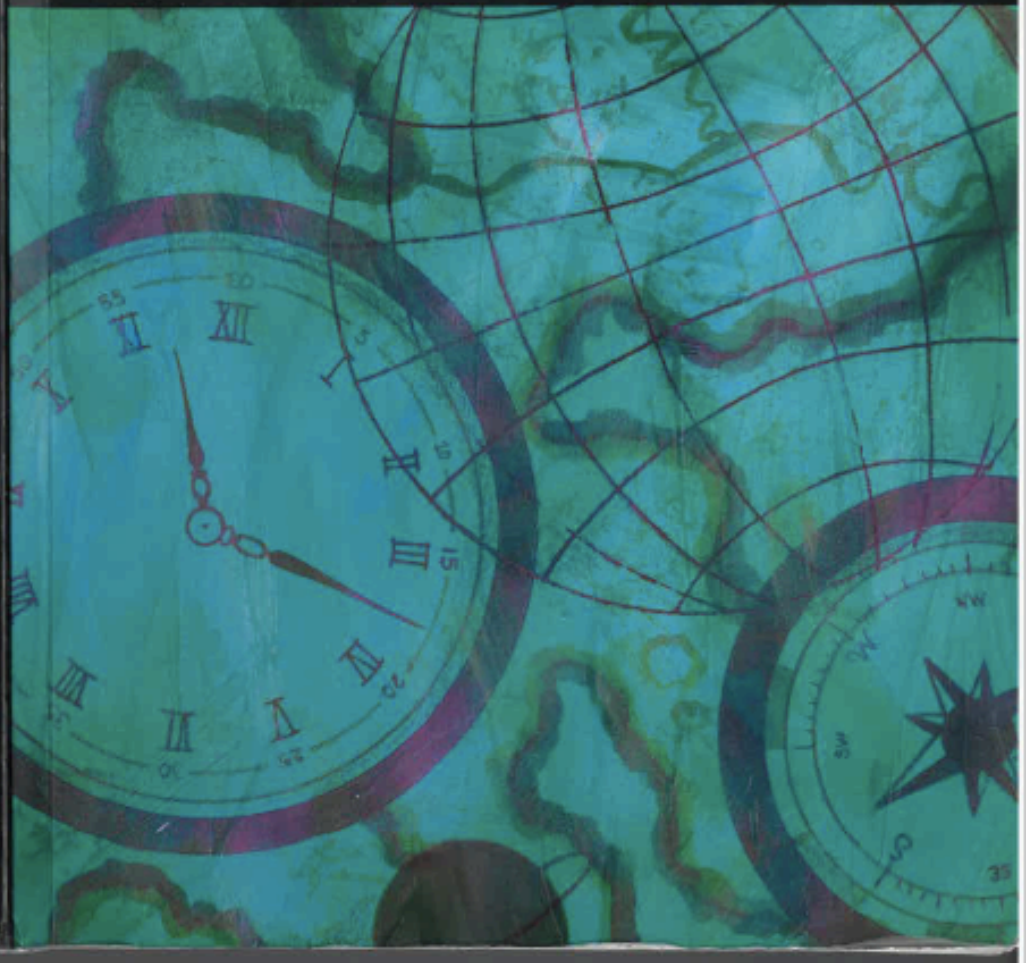

HANDBOOK OF RESEARCH IN INTERNATIONAL HUMAN RESOURCE MANAGEMENT, SECOND EDITION

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Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2012935285

ISBN 978 1 84980 918 4 (cased)

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire
Printed and bound by MPG Books Group, UK

Contents

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20 The role of human resource management in cross-border acquisitions

Joshua B. Sears, Ruth V. Aguilera and John C. Dencker

INTRODUCTION

Despite a decrease in the number of mergers and acquisitions (M&As) in recent decades, along with difficulties in making such deals work, such acquisitions remain a critical feature of the global economy. Perhaps nowhere is this more evident than in technological acquisitions, which have become the main type of M&A in recent years with respect to deal value (Inkpen et al., 2000). In innovative industries, technological change is both rapid and frequent (Sarkar et al., 2006), requiring firms to be flexible. While both incumbents and startups strive to innovate, past research provides evidence that much of the truly novel innovations originate in startups (Abernathy & Utterback, 1978; Pavitt et al., 1987). As a result, technological acquisitions have become a popular complement to internal innovation, allowing firms to overcome time compression diseconomies (Dierickx & Cool, 1989). Though technological acquisitions have recently become a much researched topic (Ahuja & Katila, 2001; Benson & Ziedonis, 2009; Capron & Mitchell, 2009; Graebner, 2004, 2009; Graebner et al., 2010; Makri et al., 2010; Paruchuri et al., 2006; Puranam & Srikanth, 2007; Puranam et al., 2006; Puranam et al., 2009; Ranft & Lord, 2002; Schweizer, 2005), less attention has been given to the effects of human resource management (HRM) strategies on firms' ability to successfully acquire external technology. This is somewhat surprising since – in contrast to other forms of M&As – retention is normally a desired goal of acquiring technology-based firms, thus making HRM a key feature of technological acquisitions.

Consistent with previous research focusing on non-technological acquisitions, acquirers fail to create value in technological acquisitions (King et al., 2008; Sears & Hoetker, 2010). Despite the acquirers' inability to create value, technological acquisitions continue to increase in prevalence as the value of technological acquisitions rose to over half of the value of all US acquisitions by the turn of the century (Inkpen et al., 2000). With the regionalization of innovation (e.g., Silicon Valley, Route 128,

the Research Triangle, Taiwan's Hsinchu region, the UK's Cambridge region), cross-border technological acquisitions are increasing as well. Although few firms are able to integrate the target firm successfully, Inkpen et al. (2000) found that the difficulties were magnified when this was a cross-border technological acquisition. Moreover, while much of the research on technological acquisitions has been conducted using a strategy lens, we focus on the role of human resource management (HRM) in the acquisition process that facilitates the realization of post-acquisition synergies.

To analyze the effectiveness of HRM strategies as a mechanism for achieving synergies, we incorporate the post-acquisition resource flows and the need for structural integration into Aguilera and Dencker's (2004) framework that considers both national institutional environments and the strategic fit between the acquisition rationale and the human resource management (HRM) strategy. By taking into account post-acquisition resource flows, we can identify which acquisitions will require greater levels of interdependence between the resources of the acquirer and the target. We can also discuss whether, and to what degree, the acquisition should entail integration since the acquirers should implement different HRM strategies contingent on whether structural integration occurs. While Aguilera and Dencker (2004) address acquisitions in a broader sense, here we focus exclusively on technological acquisitions for three primary reasons: 1) something which is unique to technological acquisitions is that their success will depend on the retention of the target firm's employees and the acquirer's ability not to disrupt the target's routines during the integration; 2) HRM strategies will play a significant role in the acquirer's ability to both successfully integrate the target and retain its employees; and 3) technological acquisitions are a newer phenomenon for which there has been little analysis involving HRM strategies.

We will organize the chapter as follows. First, we shall review the different acquisition rationales of technological acquisitions drawing on the strategy literature. We will then highlight the need for different HRM strategies for different acquisition rationales and identify the different challenges HR managers face in the different acquisition rationales. From this initial analysis of the acquisition rationales and their differential HRM challenges, we will emphasize the need for a strategic fit between the HRM strategy and the acquisition rationale. We shall then go on to examine the multiple national contexts in cross-border acquisitions with reference to coordinated market economies and liberal market economies (Hall & Soskice, 2001). We will conclude with our analysis of the use of HRM strategies in the three stages of the acquisition process: pre-announcement, pre-merger, and integration. Within this analysis, we will address the

increased difficulties of cross-border technological acquisitions arising from a lack of fit between the HRM strategies of the acquirer and target.

STRATEGIC FIT BETWEEN ACQUISITION RATIONALE AND HRM

The strategic HRM literature emphasizes the need to align a firm's HRM strategy with its business strategy (Fombrun et al., 1984; Schuler & Jackson, 1987). Building off Chandler's (1962) argument that organizational structure follows an organization's strategy, Fombrun et al. (1984) emphasize the tight link between strategy, structure and HRM, with strategy emerging as the dominant force. Consistent with this argument, Schuler and Jackson (1987) show that firms that differ in their strategies also differ in their use of the same HRM practices and that those who change their strategies are likely also to change their HRM practices.

We would argue that, for successful synergy realization, acquirers will need to align their HRM strategy with their acquisition rationale. Thus, it is important to have a clear understanding of the acquisition rationale in order to be able to specify the role HRM should play. In order to consider the fit between acquisition rationale and HRM strategies, and to help make sense of the HRM challenges in technological acquisitions, we will rely on the post-acquisition resource flows between the acquirer and the target and on the need for structural integration.

Resource Redeployment and the Structural Integration of Technological Acquisitions

Technological acquisitions have the potential to create value through the recombination of the technological resources of the acquirer and the target firms (Galunic & Rodan, 1998; Kogut & Zander, 1992; Sears, 2011). More recent research demonstrates that the pursuit of novel recombinations is the driving force that motivates many technological acquisitions (Karim & Mitchell, 2000; Larsson & Finkelstein, 1999). Therefore, maintaining the technological capabilities of the target, which reside within the routines of their knowledge workers (Nelson & Winter, 1982), is vital to achieving post-acquisition success. Managers must then focus on implementing a HRM strategy that attenuates the routine destroying effects of the post-acquisition integration process.

Two key dimensions identified by Haspeslagh and Jemison (1991) in regard to post-acquisition integration are the need for strategic interdependence and the need for structural autonomy. The strategic

interdependence necessary for synergy realization determines the directional flows of the redeployed resources and the level of interaction between the resources. The need for strategic interdependence also determines the need for structural integration. Structural integration refers to the absorption of the target by the acquirer, leading to the loss of the target's distinct organizational identity (Haspeslagh & Jemison, 1991; Puranam et al., 2006). Haspeslagh and Jemison (1991: 147) refer to structural integration as 'absorption acquisitions' which entail, a 'full consolidation, over time, of the operations, organization, and culture of both organizations': namely, as Pablo (1994: 806) notes, that through integration the multiple features of organizations are consolidated into a 'functioning whole'.

Firms will acquire technological firms to leverage either what the target knows (codifiable technological knowledge) or what the target firm does (technological capabilities) (Puranam & Srikanth, 2007). Target technological knowledge refers to the pre-acquisition accumulated knowledge that the target brings to the acquisition, while technological capabilities refers to the target's abilities to create new technological knowledge. The many acquisitions by Cisco best exemplify the acquisition of technological capabilities, where Cisco expects the technological workforce of the target firms to continue to be innovative post-acquisition. Cisco's Mario Mazzola stated that, 'Usually we purchase a specific piece of technology or a product. But that is only half the story, we also want the team which will generate innovation in the future', (Puranam, 2001: 37). On the other hand, many acquisitions are solely motivated by the acquisition of knowledge without any desire for the target firm to continue their post-acquisition innovation. An example of knowledge acquisition would be the acquisition of Danger Incorporated by Microsoft. Microsoft acquired Danger in February 2008 and the majority of the technology workforce had left by September 2009 (Kumparak, 2009). Microsoft had acquired Danger for their knowledge of the consumer mobile experience and social networking (Segan, 2008) and not for their hardware and software capabilities. The necessity for a continuous interdependence between the acquirer's and the target's resources differs between the two acquisition rationales. If a firm wants to acquire the pre-acquisition accumulated technological knowledge of the target, then the acquirer only needs a one-time acquisition of the knowledge and does not need to maintain the target's technological capabilities. On the other hand, a firm acquiring the technological capabilities wishes to continuously benefit from the capabilities of the target post-acquisition. Therefore, a HRM strategy that focuses on retaining the target's employees and maintaining their routines should lead to greater success when the rationale is to acquire that target's capabilities.

While the two previous examples of knowledge and capabilities acquisitions focus on the strategic interdependence necessary, pharmaceutical

and biotech acquisitions differ from both of these types of acquisitions. The need for autonomy rather than strategic interdependence dominates pharmaceutical and biotech acquisitions. These acquisitions are characterized by large pharmaceutical firms acquiring biotech firms for their technological capabilities. The main difference between these acquisitions and the prior example of Cisco acquisitions is that the acquirer does not wish to integrate the innovative capabilities of the two firms. Therefore, the target should be left autonomous while leveraging their innovations with the acquiring firm's superior complementary marketing and distribution capabilities (Doz, 1988; Teece, 1986).

Acquiring a firm for the purpose of gaining access to their technological knowledge requires the unidirectional flow of resources from the target to the acquirer. Puranam and Srikanth (2007) find that structural integration enhances the acquirer's ability to transfer knowledge from the target to the acquirer. Though structural integration enhances the knowledge transfer it also disrupts the target's routines, thus leading to a lack of post-acquisition innovation (Puranam & Srikanth, 2007). This does not pose a problem for knowledge acquisitions as the acquirer does not seek to use the target's capabilities in post-acquisition invention. Therefore, the HRM strategy can focus on the expedient transfer of knowledge without being constrained by the necessity to maintain the target's technological routines. The acquirer still needs to focus on employee retention at least in the short-term in order to facilitate the knowledge transfer.

HRM plays a much greater role in the successful acquisition of technological capabilities. The difficulty in acquiring capabilities rather than just knowledge relates to the need to maintain the target's routines. In order to benefit from the target's technological capabilities, managers must consider whether the capabilities acquired need to be structurally integrated with the acquirer's technological capabilities. If the synergies rely on a constant interaction between the knowledge workers of the acquirer and target, then structural integration is necessary. On the other hand, a modular design where the target's technological workers do not need to constantly interact with the acquirer's workers allows the target firm to maintain much of its pre-acquisition autonomy (Puranam et al., 2009).

Structurally integrating the target with the acquirer without disrupting the former's routines should be the acquirer's main focus. In the semiconductor industry, Kapoor and Lim (2007) showed that target firm inventors patented less when the target was integrated with the acquirer rather than left autonomous. Similarly in computing, communications, and pharmaceutical industries, Puranam and Srikanth (2007) found that structural integration decreased the productivity of the target's inventors. Much of these results can be attributed to the disruption of routines and the lack

of corporate culture match between the acquirer and target. As many technological acquisitions are between large acquirers and entrepreneurial targets, the shock of moving from an entrepreneurial and fluid work environment to the more structured work environment of a large corporation inhibits the creativity within the target. HRM must then play a role in the integration process that simultaneously allows for the continuous interaction of the knowledge workers while creating a work environment that does not inhibit the innovativeness of the target's knowledge workers.

Strategic interdependence does not always require structural integration. Puranam et al. (2009) demonstrated that acquisitions can avoid the necessity of structural integration even when there is a need for continuous interaction if the two merging firms possess 'common ground' in their technological capabilities. They found that firms could gain the benefits of coordination that were usually only obtained through structural integration, even when the target remained autonomous due to 'common ground' that allowed for efficient and effective distant communication. Therefore, HRM can play a multitude of roles in facilitating an environment for post-acquisition innovation: pre-merger partner selection for a target with 'common ground'; training to create some 'common ground' post-acquisition; and/or organizational design that creates communication channels allowing for an autonomous target structure with continuous resource interactions between the acquirer and target.

Table 20.1 presents a summary of the directional resource flows, the need for structural integration or autonomy, and the focus of HRM strategy for technological acquisitions as regards either technological capability or technological knowledge acquisition rationales. We will further discuss the appropriate match of HRM strategies and the post-acquisition integration in our analysis below. But first, we shall introduce the environmental context of cross-border acquisitions and discuss how the HRM strategies are embedded in firms' national contexts.

THE ENVIRONMENTAL CONTEXT OF CROSS-BORDER ACQUISITIONS[1]

Organizations are embedded in national and supra-national environments that can provide a source of competitive advantage for, as well as act as a constraint on, cross-border acquisitions. The result is that organizations do not operate in a vacuum; rather, they are located within certain national boundaries. The key therefore is to discern when and how the national environment influences cross-border acquisitions. Contingency theory suggests that firm strategies and structures will be dependent upon environ-

Table 20.1 Technological acquisition rationale and HRM strategy

Technological Acquisition Rationale	Direction of Resource Flows	Autonomy or Integration	HRM Strategy
Technological capabilities	Bidirectional	Integration	Maintain the routines and corporate culture of the target
	Target to Acquirer	Autonomy	Create communication channels and common corporate identity
Technological knowledge	Target to Acquirer	Integration	Create communication channels and work design for transfer of knowledge to target; maintaining the routines and culture of the target is not of the utmost importance

mental conditions (Lawrence & Lorsch, 1967). For example, Schuler and Jackson (1987) argue that managerial practices need to be aligned with environmental demands so that desired work behaviours arise.

The notion of embeddedness suggests that environmental characteristics such as institutions or culture will influence organizational strategies and structures. National culture is often reflected in a country's organizational and managerial practices, such as individual performance awards, team-oriented short-term results, and decentralized and informal organizational structures (Schneider, 1989). Fey et al. (2009) find that different HRM strategies are preferable in different national contexts and that matching the HRM strategy with the appropriate national context affects firm performance. Firms that engage in cross-border acquisitions therefore need to be aware of the possible consequences of national cultural differences. With national culture differences, corporate or organizational culture differences will also exist which will arise with national culture differences much of the time (see Cartwright & Schoenberg, 2006; Goulet & Schweiger, 2006; Stahl, 2008; Teerikangas & Very, 2006; and Weber & Drori, 2008, for reviews). At an abstract level, nations can be divided into two types based on the institutions characterizing their financial and labour market systems: liberal market economies (LME) and coordinated market economies (CME) (Gospel & Pendleton, 2003; Hall & Soskice, 2001).

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

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

Adjustments to the national institutional environment are also salient in the HRM field. For instance, HRM practices in CMEs 'include more restricted employer autonomy, difficult hiring and firing decisions, lower geographic and professional employee mobility, and a stronger link between type of education and career progression' (Sparrow et al., 1994: 286). For instance, in German industrial organization works councils will police collective bargaining agreements and training policies inside the companies and will also have a legal right to intervene in work reorganization (Casper & Hancke, 1999). By contrast, in LMEs, industrial relations are characterized primarily by open labour market relationships, with firms having the freedom to hire and fire employees almost at will and collective bargaining being uncoordinated and taking place at the firm level. Bjorkman and colleagues (2007) find significant differences in the HRM systems used in the subsidiaries of US, Japanese and European MNCs in Russia, Finland and the USA.

THE ROLE OF HRM IN CROSS-BORDER TECHNOLOGICAL ACQUISITIONS

It is important to understand when and how HRM can contribute to the success of the acquisition. The literature has divided the acquisition process into three main stages: pre-announcement; pre-merger; and integration. The pre-announcement stage tends to be secretive, with the evaluation of potential partners, and finishes with the announcement of the acquisition of a given firm. The pre-merger stage occurs between the announcement of the merger and its closing date and typically includes planning for the integration, such as communicating expected roles in the newly formed entity (Aguilera & Dencker, 2010). The integration stage implies the physical integration of the various elements of the acquisition following the closing date.

HRM practices will influence the success of acquisitions at each stage of the process. During the pre-merger stage, HRM will tend to focus on ensuring legal compliance, such as with regard to equal opportunity and collective bargaining agreements (Mirvis & Marks, 1992) as well as all planning regarding staffing, compensation and personnel issues. More specifically, it is at this stage when HRM managers in both companies will start designing potential processes to manage retention agreements and assess compensation differences between the potentially merging entities. However, at this point everything hangs on the deal going through, and while HR will bring in an assessment of the strategies and resources that will be required for the merger, evidence and practice suggest that HR practices and strategies will most influence the success of acquisitions at the integration stage, when the acquisition practices and policies are being implemented. As Child, Faulkner and Pitkethly (2001) note, the attention 'to human resources is particularly important following an acquisition, the more so if cultural differences are involved'. In effect, these cross-national differences will affect many of the firm practices and policies and magnify the complexity, often due to variations in the nature of integration across countries.

In the following section, we discuss the role of HR in these three phases of cross-border acquisitions. For comparative purposes, we shall begin our analysis of each stage within the same country group and continue with a discussion of each of these between firms belonging to different national groups. Since the vast majority of the targets for technological acquisition have historically come from LME countries (Inkpen et al., 2000), most of our analysis differentiates between the acquirer being from a CME as opposed to a LME country. Specifically, we focus on the following recognized HR functions: HR planning, communication, staffing, training and development, compensation structure, and organizational design and control dimensions (Bjorkman et al., 2007; Pucik, 1988). Table 20.2 presents a summation of the match between acquisition stage and the HR functions, with comparisons between domestic and cross-border technological acquisitions.

Table 20.2 The role of HRM in cross-border technological acquisitions

Acquisition Stage	HRM Strategy	Cross-border Acquisitions
Pre-Announcement	• Due diligence and target selection ○ incorporate HR management into strategic decision making ○ assure the business cultures can be merged without losing their capabilities ○ conduct human capital audit of target firm to identify key employees • Communication concerning post-acquisition use of resources ○ entrepreneurs are usually more concerned with the success of the firm rather than financial incentives	• Due diligence difficulties ○ access to target difficult leading to a delay in much of due diligence ○ must be willing to abandon acquisition post-announcement • Communication much slower in CME nations due to stakeholder structure ○ clear and timely communication must take place due to the fast pace of technological industries
Pre-merger	• HR planning ○ plan how the HRM systems will be augmented or integrated ○ consider the entrepreneurial culture of target	• Due diligence not completed in pre-announcement period • HR planning ○ consider HRM functions of the target that are not consistent with the values of CME firms (e.g., stock options)
Integration	• Autonomy vs. Integration ○ need for strategic interdependence of resources • Integration Speed ○ communicates employee roles immediately • Compensation Structure ○ high powered incentives such as stock options	• Autonomy vs. Integration ○ cultural distance can have a negative effect on performance with integration ○ social integration mechanisms can attenuate the negative effects of cultural distance (e.g., joint training)

Table 20.2 (continued)

Acquisition Stage	HRM Strategy	Cross-border Acquisitions
	• Staffing & Communication ○ retain target employees ○ give key employees key positions in post-acquisition firm ○ expedient communication and clear decision-making control established due to the fast pace of technological industries	• Integration Speed ○ CME hierarchies slow down the integration process • Compensation structure ○ many CME firms are not structured to offer high powered incentives such as stock options • Staffing & Communication ○ slow decision making of CME firms disrupts entrepreneurial environment ○ CME firms are less willing to integrate and/or interchange knowledge workers

Pre-Announcement Stage

Technological acquisition is unique in two ways that will affect the pre-announcement stage of the acquisition: the target possesses much control over who acquires it (Graebner, 2009; Granstrand & Sjolander, 1990), and financial compensation is not a target's sole or even main consideration since many of these are entrepreneurial firms in which the entrepreneur/seller has an emotional connection to the firm (Graebner, 2009). This puts the acquirer in a unique position of having not only to sell the financial benefits of the acquisition to the target but also to sell how the acquirer will create benefits for the target's technology (Graebner, 2009). Therefore, communication is vital in the pre-announcement stage to assure the target that the acquisition will benefit them beyond financial incentives.

Although HRM will usually play a minimal role in the pre-announcement stage, its activities should include that of strategic decision making (Antila, 2006). Antila (2006) argues that HRM should be involved in the decision process of selecting an appropriate partner. Though usually delayed to the pre-merger stage, analyzing how the target will be integrated and to what extent should initially take place in the pre-announcement stage. For

example, Cisco's management believes that one of the keys to their ability to successfully acquire technological firms is their focus on a corporate culture fit during target selection (Inkpen et al., 2000). A key method for the acquiring firm to evaluate the target's ability to contribute to the acquiring firm's innovative capability is by conducting a human capital audit. Pucik et al. (2011) identify two dimensions of a human capital audit: one compares the structures of the two firms such as compensation structure, while the other identifies the key employee talent of the target firm. Both of these play a major role in technological acquisitions as significant changes in compensation can hurt the innovative productivity of the target through reduced target employee morale (Inkpen et al., 2000; Zenger & Lazzarini, 2004) and identifying key employees can allow the acquiring firm to structure the integration in such a way that they do not lose those key target employees. Unfortunately, Clemente and Greenspan (2000) have also found that less than 40 per cent of the HR managers in their study stated that they were involved in acquisition strategy planning or target selection screening.

Cross-border acquisitions provide additional difficulties in the pre-announcement period: these are a result of the lack of access to the target firm which plagues cross-border acquisitions (Antila, 2006). With geographic distance, HR planning may not be possible until the pre-merger stage. Therefore, acquirers must maintain the option to walk away during the pre-merger stage. The willingness to balk after the acquisition announcement if due diligence uncovers potential complications explains recent empirical findings that cultural distance positively affects acquisition performance (Chakrabarti et al., 2009; Teerikangas & Very, 2006). Consistent with this explanation, Aguilera and Dencker (2010) find that acquisition announcements are more likely to be withdrawn with greater cultural distances between acquirers and targets.

Cross-border acquisitions are also susceptible to communication difficulties (Piekkari et al., 2005). Timely decision making characterizes the innovative industries of the targets. Large acquirers from CME countries are not structured to make timely decisions as many of the acquirer's stakeholders will need to be taken into consideration. Inkpen et al. (2000) found that the greater bureaucracy in acquirers from CME countries created communication problems and delays in pre-integration planning which in turn resulted in difficulties in the integration stage, since the target's employees faced many uncertainties about the future of their jobs.

Pre-Merger Stage

With the inherent difficulties in HR planning in the pre-announcement period for cross-border acquisitions, such planning becomes paramount

for post-acquisition success in the pre-merger stage. The acquirer must communicate to the target the planned post-acquisition HRM system that will need to be put in place. Colombo et al. (2007) found a positive relationship between the pre-merger planning of the integration process and long-term acquisition performance. As the HRM systems of large corporations will often not align with the HRM systems of entrepreneurial firms (Zenger & Lazzarini, 2004), communicating their intentions in the pre-merger stage allows time for negotiations that can lead to an optimal HRM system. Graebner (2009) found through multiple case studies that while the sellers of the entrepreneurial firms would seek non-financial incentives such as achieving strategic success for their business, maintaining their firm's autonomy, protecting their employees' jobs, and receiving important job responsibilities for themselves if they decide to stay with the firm, acquirers believed that they could smooth over any misrepresentations of their post-acquisition plans with financial considerations which would lead to post-acquisition employee resistance.

When considering cross-border technology acquisitions, corporate cultures can significantly differ between firms from CME countries and those from LME countries. While US firms have begun to establish divisions with the sole responsibility of handling the integration process, firms from CME countries also need to set up dedicated divisions that not only integrate the target, but also focus on understanding the corporate culture of technology firms. One European firm in Inkpen et al.'s (2000) case studies created an office in Silicon Valley for the sole purpose of understanding and absorbing the corporate culture there. This would better enable the acquirer to understand the corporate culture that is at the root of the innovativeness of the target firm. Therefore, during integration the acquirer can better understand how to integrate with the target without disrupting the latter's routines.

Integration Stage

HRM's main objective during the integration stage is to obtain the knowledge or retain the capabilities that motivate the acquisition. Therefore, HRM should focus on communication, staffing, compensation structure, and organizational design and control dimensions. We shall now analyze the different HRM strategies appropriate for structurally integrated acquisitions and those that maintain target autonomy. We shall also consider the integration speed as some acquirers prefer initially to maintain target autonomy using a gradual structural integration strategy.

The vast amount of value destruction in acquisitions occurs during the integration process (Birkinshaw et al., 2000; Graebner, 2004; Ranft &

Lord, 2002). This especially holds true in technological acquisitions where much of the value resides in the target's routines. Therefore, acquirers will maintain target autonomy in many acquisitions where synergy realization does not require technological resource interdependence (Puranam & Srikanth, 2007; Puranam et al., 2009). With respect to cross-border acquisitions, Child et al. (2001) highlighted differing levels of integration across countries, ranging from no integration, to partial integration, to full integration. For example, they demonstrated that firms in the USA and the UK integrated their subsidiaries to a greater extent than did firms in Japan, Germany and France.

Recent research has investigated the link between cultural distance and the integration/autonomy dilemma. Slangen (2006) discovered that national cultural distance had a negative impact on acquisition performance at greater levels of integration while also having a positive impact when the target is left autonomous. Similarly, Bjorkman and colleagues (2007) found that structural integration enhanced the negative effect of cultural distance, but also recognized that the use of social integration mechanisms, such as personnel rotation, short-term visits, participation in joint training programmes and meetings, and membership of cross-unit teams, could attenuate the negative interaction of cultural distance and structural integration in performance.

While autonomy can alleviate concerns about disrupting the target's routines, changes in the compensation structure and control dimensions can still negatively affect the target's entrepreneurial spirit. Difficulties in maintaining the compensation structure of targets when the target comes from an LME country and the acquirer from a CME country are exacerbated in technological acquisitions due to target employees being compensated with stock options. Since many acquirers from CME countries are not publicly traded firms (Inkpen et al., 2000), they do not have the ability to offer the stock options that entrepreneurial firm employees have come to expect. And even if they could offer stock options, stock from large corporations do not possess the same intensity of incentives as the high growth stock options from entrepreneurial firms. As technology targets are usually extremely small compared to their conglomerate acquirers from CME countries, Inkpen et al. (2000) pointed out that acquirers from CME countries are unwilling to offer stock options as it is not worth changing the compensation policy for only a small part of their large conglomerate as this may cause conflict among the rest of their conglomerate employees who do not receive stock options.

Staffing and communication play an interconnected role in the integration process. While staffing decisions should be made at the pre-merger stage, the integration stage should exhibit no ambiguity with regard to staffing decisions, with communication playing a key role in alleviating any uncertainty about staffing decisions and structure. Inkpen et al. (2000) argued that ambiguity regarding who is in control of the target post-acquisition would create an unproductive work environment. Firms from CME countries are more hierarchical, with a focus on long-term success and the good of all stakeholders which in turn slows down the decision-making process. As technology firms operate in rapidly changing technological environments, decisions will need to be made quickly. Therefore, staffing with respect to who has authority to make decisions needs to be put in place immediately and communicated effectively. Differences in communication and staffing strategies will exist between firms from LME and CME countries. Lam (2003) found that Japanese firms used a more ethnocentric HRM strategy by placing Japanese expatriates in their foreign subsidiaries to facilitate the transfer of those subsidiaries' knowledge to the Japanese headquarters, while US firms deployed a more global HRM strategy that allowed for the multinational exchange of scientific talent among the different subsidiaries and headquarters.

With technology acquisitions that structurally integrate, much of the attention needs to focus on creating mechanisms and routines for capability interdependence that will allow for synergy realization without destroying the target's routines. Cisco for example is known for its stellar record in integrating small technology firms. It has a devoted integration team whose sole job is to integrate the target with the acquirer. As Child et al. (2001: 3) pointed out regarding the merger between Cisco and the Cerent Corporation, Cisco utilized a transition team that 'mapped' Cerent employees onto jobs at Cisco and then communicated this information to those employees. Although integration is costly for Cisco Systems, it prefers to acquire knowledge through acquisitions if the development cycle is longer than six months (Aguilera & Dencker, 2004). It also tries to place key people from the target in key positions and as such has been able to retain about half of targets' CEOs in its post-acquisition firms (Inkpen et al., 2000).

Acquirers that structurally integrate must also consider the integration speed. Some firms will prefer to gradually integrate the target over a number of years while others will choose to instantly integrate the target and will then immediately begin to establish new routines for the target. Colombo et al. (2007) argued that delaying the integration process negatively affected long-term acquisition performance. The speed of the integration is also dependent on the industry as the product development cycle is often much shorter in information technology (IT) firms than in pharmaceutical firms. For example, GE Capital attempts to integrate each target as soon as possible by creating a 100-day integration plan

for each acquisition (Ashkenas et al., 1998). Likewise, Cisco tries to integrate their targets as quickly as possible and encounters more integration difficulties when they delay the integration process (Inkpen et al., 2000). Similar cross-country variation exists in terms of integration speed (Empson, 2000; Inkpen, 2000). The need to satisfy multiple stakeholders in CME countries delays the decision-making process which in turn can delay progress in integrating. With the negative effects that such delayed decision making can have on the entrepreneurial environment of target firms, it is even more important for firms from CME countries to establish a decision-making protocol or develop the organizational design in the pre-merger stage.

CONCLUSION

In this chapter, we addressed the use of HRM systems in cross-border technological acquisitions. Since the acquirer's attention is more focused on limiting employee alienation within the target rather than the rationalization of resources in technological acquisitions (Rees & Edwards, 2009), technological acquisitions deserve special attention in the choice of HRM strategy implemented. We argued that there needed to be a strategic fit between the directional flows of the post-acquisition redeployed resources, their strategic interdependence, and the necessity of a structural integration with the particular HRM strategy implemented. We further argued that the appropriate strategic fit was contingent on the national contexts of the merging firms.

In our analysis we highlighted that acquirers needed to incorporate HRM into both the pre-announcement and pre-merger stages of the acquisition whereas much of the previous research has focused solely on the integration stage. While most acquirers do not utilize their HR managers during the target selection process (Clemente & Greenspan, 2000), HR managers should have a more strategic role in the pre-announcement period because coming to an agreement with the right partner will turn out to be critical for the post-integration acquisition success. Cisco management has acknowledged that picking the wrong partner in terms of corporate culture fit is difficult to overcome in the integration stage (Inkpen et al., 2000). Organizational culture fit should be assessed during the pre-announcement stage and be worked through during the pre-merger stage, so that when the acquisition takes place employees can experience as little turmoil as possible. Thus the majority of HR planning must happen in the pre-merger stage in technological acquisitions, as delays in setting the new organizational design will create ambiguities

that in turn will lead to a deterioration of the fast-paced and entrepreneurial environment.

The HRM strategy implemented in the integration stage depends on the need for structural integration. With structural integration this strategy needs to focus on keeping the target's knowledge workers' routines in place. Cisco does this by putting great emphasis not only on keeping the target's key employees but also on establishing them in key positions within the post-acquisition firm (Inkpen et al., 2000). When the target maintains structural autonomy, the acquirer needs to create communication channels and a common organization identity through social integration mechanisms such as personnel rotation, short-term visits, participation in joint training programmes and meetings, and membership of cross-unit teams (Bjorkman et al., 2007).

National contexts will affect how HRM strategies work in various target nations. While the majority of technological acquisitions are undertaken between firms that are in LME countries, firms from CME countries are increasingly undertaking technological acquisitions of targets from LME countries. CME firms' major difficulties in acquiring LME technological targets lie in maintaining the pre-acquisition compensation structure and the fast-paced decision-making culture of the target. CME firms' stakeholder governance systems are not structured either to offer high impact compensation mechanisms such as stock options or to make fast-paced decisions.

In conclusion, research shows that managers must account for their strategic rationale for a technological acquisition and then apply appropriate HRM functions that will enhance acquisition performance. Acquirers from CME countries must recognize the entrepreneurial environment of the target and adjust their management style with the target to keep the target's routines intact. In order for CME firms to be able to successfully acquire technological targets, they must be able to implement a HRM strategy that maintains the target's entrepreneurial culture. While we have focused on the use of HRM systems in the target, Rees and Edwards (2009) argued that acquirers could use the acquisitions of technological firms from LME countries to implement the high-powered HRM systems traditionally found in entrepreneurial targets within the acquirer. Therefore, the acquirer not only maintains the corporate environment and routines of the target it can also upgrade its own HRM systems.

NOTE

1. This section is based on Aguilera & Dencker (2004).

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