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# Key HRM strategies for M&A integration in the global banking industry: a comparative study of the USA, Europe and South America

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## **Key HRM strategies for M&A integration in the global banking industry: a comparative study of the USA, Europe and South America**

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**Abstract:** Based on in-depth interviews with over ten major banks and financial corporations in the USA, Europe, and South America, this paper identifies the main reasons for the more effective post-merger integration strategy of European and South American banks than that of their US counterparts. Overall, we found that human resource managers are essential to the M&A integration process in Europe and South America owing to the influence of labour laws in those regions. In particular, substantial differences were noted in the retention strategy and negotiation process regarding compensation between the USA and both European and South American banks.

**Keywords:** human resource management; mergers and acquisition; integration; banking industry; retention strategy; international management; compensation negotiation process.

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## **1 Introduction**

The unprecedented economic crisis in 2008 essentially collapsed and redefined the merger and acquisition (M&A) landscape. As a result, new challenges have emerged for companies and the human resource (HR) professionals who cultivate essential human capital during contract execution. Even pre-economic crisis M&A landscapes created powerful pressure for human resource professionals as M&As were not easy to execute. A large percentage of corporate M&As tend to fail and the banking industry is no exception. A report by KPMG (1999) stated that 83% of M&A transactions failed to deliver shareholder value and 53% actually destroyed value. This is a staggering figure and a testimony that M&A does not always result in a successful growth strategy as often expected (Moeller and Schlingemann, 2005). Other studies confirmed that M&A activity had a modest negative effect on the long-term financial performance of acquiring firms (King et al., 2004). As such, scholars as well as practitioners have become increasingly interested in discovering what creates an unsuccessful merger or acquisition (Stahl et al., 2005).

Despite the attempt by researchers to pinpoint the predictors of M&A success, inconsistent and confusing results have led to little clarity on the causes of the high failure rate of M&As (Weber and Fried, 2011). It is perplexing that although such a high M&A failure rate exists, executives are still sold on the fact that M&As are a promising route to corporate growth (Weber and Fried, 2011). This paradox leaves a ripe opportunity for researchers to further explore the HR strategies that integrate the merged company into new cultures during the post-merger stage. In particular, the management of cross-cultural issues during the post-merger integration stage deserves more attention in order to materialise the potential synergy as expected from the pre-merger stage (Weber et al., 2011a).

Multinational corporations' (MNCs) failure to adapt their strategies to the host country environment including national cultural differences has been identified as one of the main causes leading to unprofitable acquisitions (Uhlenbruck, 2004; Vaara, 2003; Datta and Puia, 1995). Cross-cultural difference, however, may not necessarily be a hindrance to cross-border M&A if different cultures are to be successfully combined (Rotting, 2007; Shoenberg, 2000; Morosini et al., 1998). Cultural differences can be either beneficial or detrimental to M&A success depending upon how the acquiring and target companies handle social integration problems and affect each company's capacity to absorb capabilities from the other party (Björkman et al., 2007). Difficulties experienced by an acquiring firm in managing a target firm could also be directly related to differences in organisational cultures between the merging firms (Weber, 1996; Cartwright and Cooper, 1993; Very et al., 1993).

A more recent literature focuses on the impact of national as well as organisational culture on knowledge transfer in cross-border M&As. [Vaara et al. \(2010\)](#) found that cultural differences at the organisational level are positively associated with social conflict, but national cultural differences can decrease social conflict. In other words, national cultural differences were found to be negatively associated with conflict. They attributed a rather surprising result to the fact that organisational cultural differences are the key social identity category in international acquisitions whereas national cultural differences are less central. Furthermore, managers may have learned to focus attention on apparent national cultural differences and to manage them (Vaara et al., 2010, p.18). In addition, they found that both organisational and national cultural differences are positively associated with knowledge transfer. Similarly, [Sarala and Vaara \(2010\)](#) demonstrate that national cultural differences provide great potential for knowledge transfer in international acquisitions. Furthermore, they contend that organisational cultural convergence and crossvergence exert a significant positive effect on knowledge transfer. Recognising the conflicting evidence on the impact of cultural dimensions, both national and organisational, on the level of integration and post M&A performance, [Weber et al. \(2009\)](#) suggest a framework that explains the effect of cultural difference on various integration approaches. The framework was further developed to suggest that each acquirer should consider its preferences for level of integration based on its cultural dimensions and traits, within the integration approach that was chosen for the M&A (Weber et al., 2011b). In addition, the recent research attempts a cross-disciplinary and multi-level examination of cross-cultural management of M&As at both the pre- and post-merger stage in determining synergy potential ([Weber et al., 2011a](#)).

Whether cultural differences at either the national or organisational level lead to effective knowledge transfer or improved performance after M&A, it is clear that companies have commonly overlooked the role of human resource management (HRM) in creating a successful integration ([DeNisi and Shin, 2004](#); [Bryson, 2003](#); [Schuler and Jackson, 2001](#); [Cartwright and Cooper, 1996](#)). HRM is the key to a successful M&A integration ([Seo and Hill, 2005](#); [Quah and Young, 2005](#); [Schuler and Jackson, 2001](#)) and the lack of attention to HRM, particularly in the early stages, could lead to severe consequences ([Tanure and Gonzalez-Duarte, 2007](#); [Aguilera and Dencker, 2004](#)). For a successful M&A, HRM should be involved in the acquisition strategy, target examination, preparation of pre-deal contracts, due diligence, integration planning, and employee communication ([Clemente and Greenspan, 1999](#)). The significance of blending corporate cultures or retaining key employees is not visible on financial statements. Therefore, many analysts who have not conducted thorough due diligence by interacting with management and understanding the “soft” qualities of the companies will not significantly use HRM strategies as a key instrument in successfully completing M&A deals. Therefore, what some may argue as the most valuable assets of a company, human capital, are essentially ignored until it is strategically too late. HRM strategies must be integrated throughout the entire spectrum of the M&A deal.

The extant literature delineates specific HR practices that may lead to improved performance for the integrated company. Based on a knowledge-based view of acquisitions, [Weber and Tarba \(2010\)](#) suggest that to improve M&A performance, an acquiring company must use HR practices that develop integration capabilities during post-merger integration. They identified the following three areas as key to success: training, communication, and autonomy. [Schuler and Jackson \(2001\)](#) proposed a three-stage model of mergers and acquisitions that systematically identifies several human

resource issues and activities. Specifically, they identified eight HR issues including retention and communication that are deemed critical to the integration of the companies involved in M&A. In the integration stage of M&As, it is critical to keep a talented group of people who can provide a sustainable competitive advantage to an integrated firm. First and foremost, once the M&A transaction is completed, the merged company should try to identify valuable managers and employees. Then, adequate compensation and benefit packages are offered to retain them along with effective communication to relieve their anxiety involving a drastic organisational change. In order to effectively deal with these issues, HR managers need to have an in-depth understanding of a country's legal environment, labour laws in particular, in which an M&A agreement takes place.

The primary objective of this paper is to compare and contrast the HRM strategies utilised by European and South American banks with those employed by US banks in the context of respective legal environment. We chose to focus our research on the banking industry to control the scope of this study for the following two reasons. First, since the banking industry is a service-oriented industry, we expect that HRM practices play a greater role in determining the success of a merger or an acquisition. To illustrate, using a sample of US banks, [Lin et al. \(2006\)](#) found that M&A could be very effective when the firm had high HR capability. Second, the banking industry has been ripe for consolidation in many countries. In the USA, the Glass-Steagall act of 1999 abolished the law that commercial banks could not work with brokerage houses. This forced all major banks and brokerage houses to find partners and find them fast. In the European Union (EU), laws have also become less strict in order to promote cross-border merger activities ([Hartmann, 2005](#)). The changes in the legal landscape have caused a large wave of M&A activity in Europe as these banks are trying to expand their reach across the EU in an effort to be more competitive. According to global analysis and systems provider Dealogic, European financial services M&As increased 107% to \$231 billion ([Dealogic.com](#)). M&A in the banking industry are not only happening within the USA and Europe but all over the globe. Taking advantage of the continued deregulation, the banking industry is expanding its reach globally in a quest to dominate global capital and overcome fierce competition. In the following section, we will explain the theoretical underpinning of our paper based on the existing literature.

## **2 The role of human resource management in M&As**

Morton (2004) identified M&A as one of the driving forces influencing the policy and practice of talent management. Making the best use of human capital, talent management consists of identifying, retaining, motivating, and rewarding the most capable managers to sustain a firm's competitive advantage ([Lewis and Heckman, 2006](#)). HRM can help realise the value of an M&A deal by properly implementing HRM strategies that support the objectives of talent management. One of the most critical parts of human resource management in an M&A is the retention strategy. The McKinsey study identified the retention of key talent and executive retention as the two most critical factors in M&A success ([Kay and Shelton, 2000](#)). HR managers should turn their immediate attention to developing a retention strategy for key employees once the leadership team has been established ([Aguilera and Dencker, 2004](#)). Many top employees of an acquired firm leave during the acquisition transition as many acquired executives experience diminished

status relative to their counterparts from the acquiring company (Hambrick and Cannella 1993, Walsh and [Ellwood, 1991](#)). Building on the work of Hambrick and Cannella (1993), [Lubatkin et al. \(1999\)](#) found that the turnover rate of acquired executives tends to increase as the perceived cultural differences are greater between the acquiring and the acquired firm and they perceive that greater degree of autonomy is removed from an acquiring firm's top management. The loss of these executives' expertise and skills may adversely affect the competitive advantage associated with specialised knowledge and lead to lower post-acquisition performance ([Schuler and Jackson, 2001](#); [Cannella and Hambrick, 1993](#); [Ranft and Lord, 2000](#)). Matsusaka (1993) underscores the importance of making key leadership decisions early on and the value in managerial-synergy acquisitions, which occur when target management is a key asset in an M&A. Overall, his research suggests that the market favours acquisitions intended to take advantage of managerial synergies and disfavours takeovers that are motivated to discipline targeted management.

Next, critical to the success of any M&A is the development and implementation of comprehensive compensation plans that support the resulting entity and keep the talented managers. The leadership team must first identify the key employees and then develop a suitable compensation package not only to encourage continued employment but also to greatly motivate the employees for the new synergy. An acquiring company's HR policies and reward system was found to be the most important factor in gaining the trust of the target company's employees, resulting in successful integration (Stahl and Sitkin, 2005; Stahl et al., 2003). At the core of compensation strategies is the understanding that such packages are used to also motivate employees for the new integrated vision. It is well documented in the literature that adequate compensation constitutes one of the strong motivators for managers to stay with their company (e.g. Bloom and Michel, 2002). Unfortunately, retention, benefits, and compensation packages are usually the most difficult to agree upon (Harrison, 1998).

Furthermore, the political and legal environment in which an M&A agreement takes place may influence the way the transaction is structured and how the employees are treated ([Rees and Edwards, 2009](#)). HR managers should be well aware of the role of unions and different employment relation's policy approaches in different countries in order to devise an appropriate retention and compensation strategy ([Bryson, 2003](#)). To illustrate, European labour laws make striking an M&A deal in Europe more challenging than in the USA. This is because M&As taking place within European borders are subject to stronger regulations and stringent restrictions on employee dismissals. The USA has a significantly shorter-term employment and termination philosophy than European countries due to the lack of strong trade unions as found in Europe (Faulkner et al., 2002).

Communication is another critical vehicle through which employee motivation and engagement about M&As are kept alive and the combined company extracts the maximum potential of the targeted employees. Employees need to be convinced that an M&A will help the company continue to grow and benefit the employees directly. A multiple communication approach is the most effective and lowest risk strategy ([Perks, 2004](#)). Through effective communication, the integration process should be seen as fair, independent, and representative of the combined interests of each side to effectively help integrate the two entities and to earn the trust of affected employees (Seo and Hill, 2005). Other scholars also found that communication helps reduce the targeted employees'

anxiety and uncertainty about M&As and generates trust, and thereby support for the intended integration (Schweiger and DeNisi, 1991; Napier, 1989; Napier et al., 1989; Bastien, 1987). More recently, increased communication was found to be associated with positive performance after a merger. Furthermore, they discovered that the relationship between communication and performance varies among acquirers from different countries as evidenced by the Japanese firms' higher contribution of communication to stock market value than their German counterparts' (Weber et al., 2012). In sum, the acquiring company should be able to effectively deal with these three issues in order to achieve the expected performance through M&A.

### **3 Methods and findings**

A case study based on personal interviews was the method used to investigate our research questions. The case study represents a distinctive form of an empirical inquiry about the contemporary events over which the investigator has little or no control (Yin, 2009). This methodology provided qualitative insight into the research questions we were investigating by allowing us to observe unique business practices of the interviewed companies and to explore the underlying reasons of their decision-making.

As part of the Comparative Management Systems (CMS) programme at one of the major private universities in Los Angeles, California, we conducted 16 interviews in total with both human resource managers and top executive managers of the banks who were highly involved in M&A transactions. We had more than one interview at some banks. For example, At Banco de Chile, we interviewed the CEO as well as the Chief HR executive who played a vital role in merging with Banco Edwards and Citibank. Due to limited access and confidentiality hurdles, the completed interviews totalled 16. The banks interviewed in the USA include Citigroup, Wells Fargo Bank and the Bank of New York. Banks interviewed in Europe include UBS and BNP-Paribas. We visited these European banks during the summer 2006 and conducted a total of nine interviews, each lasting approximately two hours. A second round of seven interviews took place during May 2008 and was conducted with the banks in South America including Uruguay, Chile, Brazil, and Argentina. A partial list of the managers interviewed came from Banco Itau, Banco Santander, and Banco de Chile, Lazard Investment Group, GE Capital Latin America and Needham and Company. Please refer to Table 1 for the complete list.

We chose to interview these banks because they were among the major banks that had successfully completed post M&A integration. To conduct personal interviews with these managers from the banks contacted, questions were developed from the existing literature dealing with HRM issues involving M&A as discussed above. To ensure the content validity of instruments, the questions were developed based on the three factors as identified in the previous literature that are deemed most critical from a HRM perspective during the integration process of M&A: retention, compensation, and communication (e.g. Schuler and Jackson, 2001; Kay and Shelton, 2000; Schweiger and Denisi, 1991; Napier et al., 1989). The questions were formulated to extract the respondent's practical experiences regarding each of these factors (see Appendix A). A content analysis was used to sort out and synthesise all the information collected from the interviews. We believe that the content analysis is an appropriate research method as it uses a set of procedures to make a valid inference from text to disclose similarities and differences in interview content (Weber, 1990).

**Table 1** Banks interviewed

| <i>Company</i>           | <i>Region</i> | <i>Title of person interviewed</i>                                                       |
|--------------------------|---------------|------------------------------------------------------------------------------------------|
| Bank of New York         | USA           | Human Resources Manager; Vice President, Corporate Development; Managing Director        |
| Banco Itau               | South America | General Manager                                                                          |
| Banco de Chile           | South America | CEO; HR Chief Executive; Organisation Development Manager; Transactional Service Manager |
| Banco Santander          | South America | Vice President, Human Resources                                                          |
| BNP-Paribas              | Europe        | Human Resources Manager                                                                  |
| Citigroup                | USA           | Director of Human Resources                                                              |
| GE Capital Latin America | South America | Former Head                                                                              |
| Lazard Investment Group  | South America | Director of Administration and Finance                                                   |
| Needham and Company      | South America | Managing Director                                                                        |
| UBS                      | Europe        | HR Managing Director, M&A                                                                |
| Wells Fargo              | USA           | Human Resources Manager                                                                  |

### 3.1 Retention

All banking professionals interviewed agreed that a well-planned leadership team is an extremely important first step during the framework stage of the M&A integration process. Existing research has attempted to prove that the retention strategies at the highest executive level (such as CEOs, Presidents and Chairpersons) can have the most profound effect (Cannella and Hambrick, 1993). It is further argued that departure of executives from acquired firms is harmful to post acquisition performance. To minimise such a negative impact, we discovered from our interviews how these executives are utilised and retained.

It was noted that personnel from the acquiring and acquired bank that have a strong background in human resource management strategies are best to navigate the integration of employees while simultaneously minimising the disruption associated with the M&A. The transparency and fairness of the leadership team is vital to successful integration. Fairness can sometimes be accomplished by using outside consultants or professionals to lead the integration process and handle HR issues although we admit that the notion of fairness could vary from one culture to another.

As specified by one of the members of the Board of Directors of Banco de Chile, hiring an HR representative from outside the company who is visibly objective is helpful. This strategy was used by Banco de Chile during the Banco Santiago and Banco O'Higgins merger, where outside consultants from McKinsey Consulting were hired to assist in implementing the headcount reduction. The type of human resource professional engaged to implement HRM strategies can be just as crucial as the strategies implemented. A neutral, independent HR professional will create an environment of fairness, as the professional will typically be seen as objective and unbiased.

We found that US and European banks have different retention strategies. European banks use a long-term process for choosing management compared to US banks. This



creates a self-selection process that is more common in Europe than in the USA. This process usually results in the weaker person stepping down and the stronger individual ending up in the position after a certain period of time. For example, BNP Paribas strives to select the most competent managers while choosing the correct number of people from both groups. They implement a six days, six weeks, six months plan in choosing new management. Within six days, top managers are named and these top managers have six weeks to name their colleagues for major HR teams. After six months, they finish putting together each team and the organisational charts. One of the top HR managers emphasised, “BNP Paribas believes that people are the most valuable asset of a company; if you get rid of the key people you are losing the value of what you bargained for.”

Bank of New York uses a similar process to identify unnecessary employees. Bank of New York examines the profiles of all employees, including their tenure at the company, their inherent value and the possibility of paying that employee out should his or her contribution result in less than expected. Bank of New York holds one-on-one discussions with the employees whom it doesn't think are performing up to par and determines whether that employee will remain with the company, usually within two months. A top HR and Corporate Development manager we interviewed said, “Bank of New York likes to determine who will be running the show as soon as possible. You have to know who is going to run the business and get it clear from day one. You identify the leader and the next five people and figure out who those five are through the due diligence process.”

Similarly, we found that the interviewed banks in South America used tests, simulations, interviews, and prior evaluations as the means to identify key employees. The former Head of GE Capital Latin America stated that mental/psychological tests, periodic performance reviews and interviews were methods used to analyse employees during the vetting process of identifying top talent in the banking industry in Brazil. Additionally, the amount of work experience and the employee's ability to fit within the company culture are highly regarded during the evaluation process. The General Manager of Banco Itau specified that in order to reduce the risk of losing key employees, Banco Itau prefers to involve a large portion of their management team in the decision making process to determine whether to conduct a merger or an acquisition. For example, managers at Banco Itau in Uruguay sought the opinion of their branch managers regarding whether a potential M&A would be successful and requested their commitment to remain throughout the transaction. Furthermore, key senior executives at Banco Itau preferred to keep senior staff at the merged bank for a period of 1–2 years to better identify key employees. In sum, extended selection periods tend to maximise the probability of selecting the most exceptional employees. The increased selection periods allows HRM to collect more information about an employee before making a decision. The longer the time, the clearer it becomes who is a better fit for the position. Also, HRM who select employees later in the acquisition phase are more knowledgeable of how the deal is taking shape and thus, have a better understanding of the qualities needed to fulfil the new roles.

### *3.2 Compensation*

The Director of Administration and Finance from the Lazard Investment Group has noted that incentives such as bonuses, growth opportunities, and compensation with company shares are valuable tools to maintain key employees. Similarly, the General Manager of

Banco Itau stated, “to retain key employees, you need to make sure the employees have good salaries, bonuses, and their personal goals are satisfied.” These methods are not much different than the ones used in the USA. However, due to the imposition of stringent labour laws and union regulations in Europe and South America, some of the banks are required to provide these incentives to all employees, rather than exclusively to top management.

In the words of a top manager from Needham and Company, LLC, “The benefits and compensation of all employees is examined very carefully and is a huge weight in the calculation of the sale price of the merger.” Among the banks interviewed, most of these issues are handled in the same manner but there are a few differences mainly due to the distinctive labour laws. The first major difference in Europe is employment contracts. Employment contracts can take extra time and negotiation to complete. Taking this extra time and meeting demands can often add to the overall price of a potentially acquired company. A top HR manager of BNP Paribas told us that these negotiations with employees could often be done in groups to reduce time spent. However, different arrangements are often made, resulting in HR benefits that differ from agreement to agreement, causing additional challenges for HR.

The banks interviewed in South America also stated that wage reconciliation between the two combining workforces could be a daunting task. Banco Santander faced this issue during an acquisition in Brazil. Due to the disparity in wages between the two banks, HR faced an enormous challenge in creating a unified workforce during Banco Santander’s acquisition of ABN Amro’s operations in Brazil. According to the Vice President of Human Resources of Banco Santander, all employees at ABN Amro, ranging from bank tellers to managing directors, were paid significantly more than those employees at Banco Santander. This put Banco Santander in a precarious situation. It was critical for Banco Santander to address this issue due to the growing disillusionment among its own employees. However, they could not reduce the salaries of the ABN Amro employees for fear of creating a mass exodus to competing banks as well as violating legal controls and creating union outrage.

In some instances, acquired banks maintain their benefit package as deemed superior. If so, it is practical to pick and choose from competing benefit packages to arrive at a better package. The Managing Director of Human Resources of Citigroup explained that in its merger with Schroeder’s they created a team of HR managers from each company to work through the benefits from both companies and selected the very best. This may take time but is often the best route because representatives from each company that are familiar with their packages can work together to develop a new package that satisfies the combined employees. New compensation plans are typically used to support the new relationships created by the M&A. They can be instrumental in getting people to work more effectively together toward new common goals. New plans may also assist management in reducing the “us versus them” mentality that often results from an M&A by providing a programme that will be jointly “owned” by the newly combined workforce.

From the interviews, we found that it is critical for management to ensure that an effective compensation programme supports the business integration. It is often tempting to skip this critical reassessment of the compensation programme and move ahead with reorganisation, downsizing, and integration with the expectation that business will return

to normal and existing compensation plans will automatically suffice once M&A is completed. Such an orientation is shortsighted, however, and will not improve the chances for long-term success of the M&A.

### *3.2.1 Labour union involvement*

We also investigated the influence of labour unions on compensation in different regions. While European countries are diverse in law and governance, Europe has a long history of pro-labour views that have created explicit rights for employees and restrictions on companies. Our findings imply that countries with these rights and restrictions have positive effects on M&A. The Managing Director of Human Resources of Citigroup stated, "The most important difference between European and US M&A in regards to labour laws is without a doubt the employment contract." The Managing Director said, "Reducing overall employment is one of the major synergies realised in an M&A in the USA but is usually not the primary reason for an M&A in Europe." European M&A may be more successful because of the long-term employee selection process and the increased participation during M&A negotiations in labour union countries.

In these countries, European labour laws favour employees and promote the growth of labour unions as big players.

From our interviews we found two major implications of strong labour unions in Europe. First, labour unions result in increased due diligence, which will give a company a better sense of compatibility and also more information about company demographics for integration strategies. The Managing Director of M&A of UBS mentioned, "Because European M&A can't have immediate employee reductions, they must dig deeper for synergies. This requires more rigorous due diligence and research on a target company. The resulting effect is a longer process to materialise synergies between the merged companies." He continued, "Because of the slower process, synergies might not be realised for 3–5 years after the completion of the M&A but they are better in the end." In other words, the strong foundation of labour laws in Europe are embedded into M&As which can assist in a successful transaction by increasing HR due diligence.

Second, according to a top HR manager of BNP Paribas, another reason why overall European M&A perform better is that "unions have forced more communication." In many European countries the negotiation process includes employee involvement, which increases information exchange and communication. For example, unlike the US banking industry, in France there is an open negotiation between banks and "employee representatives." When the company employs more than 50 employees, employee representatives are required to be present at negotiations. They convey the concerns of the employees and acquire knowledge about the type of M&A that the company wants to see happen. The Managing Director of UBS views the issues related to employees in Europe as just "part of exercising the deal and a cost of the transaction." While in Europe these laws increase the time to strike a deal, the deal is in the end better structured because both sides have come up with solutions to concerns regarding the M&A." He emphasised, "You have a pretty good idea of what you are getting just from the documentation of the negotiations. This leads to increased transparency and better strategic planning on the HRM side."

Like France, UK companies play a more active role with unions than in the USA. While negotiating with unions in the UK can lead to employee contracts that are over 22 pages in length per employee, the Managing Director of Human Resources of

Citigroup views the employee contracts as “a price to pay to operate in that country.” He believes that labour laws have led to HR playing “a much greater role in Europe than the USA.” In Europe, you have to spend “more time to make sure that the employees are on board” and that you are in line with the union requirements. As soon as the rumour of a merger begins, HR must take action immediately. Because an acquiring company is required to care about whether the potentially acquired company feels comfortable with the acquisition, the employees are on board with the merger and likely to perform well in the end. Without the presence of unions, it is unlikely that companies would pay such special attention to employee needs and particularities. This special attention allows HRM to gain invaluable knowledge about human capital and accordingly, create enhanced HR strategies for integration than deals that do not entail a union process.

Although the influence of the labour union is also very strong in South America, its strength and legal regulations vary significantly across countries. Due to the paternalistic nature of South American culture, governments often feel obligated to establish strict employment laws in order to protect its citizens. The ramifications of these laws and swaying public opinion often bolster union power. Of the four countries that we studied, Uruguay has the strongest labour unions with over 80% of employees unionised. To make matters more complicated in Uruguay when conducting a merger or an acquisition the acquiring bank must accept the fact that it will be very difficult to layoff any employees from the acquired bank. Due to the regulations in Uruguay, no specific person can be targeted for a layoff. Instead a very generous severance package is offered to the whole group and the individual decides whether he or she accepts the package or not. No one is forced to take a package. The labour unions and labour laws once again govern the compensation package offered in a layoff situation. In Chile, however, labour unions do not wield the same bargaining power as in other South American countries. As a result, they do not play as significant a role in HRM.

In addition to their influence, unions are usually in close and constant contact with employees and are thus generally well respected. As specified by the Organisational Development Manager of Banco de Chile, “Unions are close to employees; therefore, we need to partner with the unions to successfully conduct mergers and acquisitions.” This close contact ensures the unions accurately represent the voice of the employees during an M&A. In Brazil and Chile, union strength has diminished over the past few years and their negotiating power is not what it once was. Although unions are still present, they do not form the immense barrier that exists in Uruguay and Argentina. However, human resource managers must be aware that banks in Brazil generally offer a compensation package that is more lucrative than those in the USA but much lower than those in other South American countries. In Chile, the compensation packages with regards to layoffs mirror the USA.

Lastly, it is not uncommon for banks in Uruguay and Argentina to have multiple unions within a bank. In such a scenario, the interactions between the various unions should be fair, equal, and comprehensive to include all factions. As one of the Board of Directors of Banco de Chile specified, two unions were involved in labour regulation between Banco de Chile and Banco Edwards. One of the key challenges for HR managers at Banco de Chile was to avoid potential conflict by providing the same information to all unions involved. Brazil has a two-tiered union system, one at the local level and one at the national level. Therefore, it is vital that HR managers work equally with all unions in order to gain their support and avoid potential union dissatisfaction.

### *3.3 Communication*

The above discussion certainly brought to our attention the importance of communication during M&A. Our interviews confirmed the existing literature findings (Gitelson et al., 2001; [Schweiger and Denisi, 1991](#)). However, it is important to examine how cross-cultural differences may affect HR communication practices and post-merger performance in multiple countries ([Weber et al., 2012](#)). While overall an increase in communication exerts positive influence on the performance of the merged company, post-merger strategies must match certain communication strategies with nationality differences in the areas of autonomy and training programmes ([Weber et al., 2012](#)).

Despite possible cross-cultural differences in autonomy and training HR practices in different countries, we found three recurring themes about communication from our interviews. First, the acquiring company should have an honest communication strategy that is proactive, continuous, and abundant. Second, management should determine the most appropriate method for communicating with employees in order to mitigate any stress associated with the M&A. Third, communication facilitates M&A by allowing banks to exchange major business practices and reduce employee anxiety. The timing and amount of relevant communication between employees and management is critical to the success of the merger. Our interviewees believed these ideas are crucial for a successful communication plan during the integration process of M&A.

### *3.4 Building an honest and open relationship*

Trust is crucial during the communication process of an M&A transaction although the notion of trust may not be identical across borders. In order to further trust, our interviews have found that honesty is essential to a successful M&A transaction in the banking industry. The former Head of GE Capital Latin America stated that good communication between all participating parties is a key success factor. A member of the Board of Directors of Banco de Chile added that honesty about synergies is well regarded and “layoffs should be executed upfront with honesty and expedience.” He further stated, “If an employee is needed for only two years, management should be honest regarding the important details of the merger as they pertain to the employee’s employment status.” This open honesty will reassure the employees that the bank values the employee’s opinion and intends to retain them after the M&A transaction. Additionally, the Transactional Services Manager of Banco de Chile, who has had extensive experience with Citibank, recommended being as open as possible to those involved with any transaction. He continued to specify that having a champion for the merger, preferably from senior management, would ensure good communication that flows from the top of the organisation down. In this situation, a champion is defined as a project manager or focal point of the intended transaction. The Organisational and Development Manager of Banco de Chile provided his guiding principles towards successful communication, which consisted of allowing employees plenty of time to react to M&A announcements, respecting your employees and being clear with your communication methods. When leaders give incomplete or inaccurate communication early on in a deal, they erode their employees’ trust – and they must rebuild their credibility while employees are engaged in a difficult transition.

### 3.5 *Face-to-face communication*

Our interviewees agreed that face-to-face communication is very important but not always applicable. In an interview with the Director of Administration and Finance from the Lazard Investment Group, he mentioned that face-to-face communication is not always feasible because some organisations are so large that only senior personnel need to know the facts or in other cases secrecy is crucial due to legal obligations. He explained that when Lazard Investment Group merged with MBA Bank, only an email announcement regarding the potential merger was distributed to all of the employees, but the chairman communicated directly with the managers and directors during the transaction. Overcoming confidentiality issues and barriers to face-to-face communication remains a key hurdle for HRM in these types of deals.

On the other hand, informal face-to-face communication has been found to be essential in retaining top management. The member of the Board of Directors of Banco de Chile confirmed the practice that the Director of Administration and Finance from the Lazard Investment Group described when he recommended to “communicate on a private level with the employee(s) you want to retain prior to public announcement” to ensure the employees are confident of their employment status. When Banco Itau acquired Bank of America’s Uruguayan operations the General Manager of Banco Itau, explained that he communicated everything directly to his employees and he assured them that nothing would change after the completion of the M&A. However, the General Manager of Banco Itau emphasised that one-on-one communication was used for more detailed communications among the senior management of Banco Itau. Whether face-to-face communication channels are open or not, it is most important for HRM to ensure that they are furthering open relationships and communicating key messages to employees.

We also found that many different types of communication with employees are available for US and European banks. BNP Paribas uses email, mailboxes, and spreads the word from management down. Nominated HR champions make sure that the message stays consistent as they cascade out into the organisation. Wells Fargo leans heavily towards the internet to get new employees comfortable with using the internet on a day-to-day basis in the business environment. They also have staff meetings every two weeks to keep everyone in the loop. Citigroup said they would often use videos to assist in conveying their culture and various processes. There are many different channels and mediums of communication HRM can use to permeate messages into all areas of an organisation. It’s a mistake, however, to over-rely on e-mail and voice mail in a highly turbulent and stressed environment. The best form of communication remains face-to-face because you can have an emotional connection with the concerned employees and better understand what needs to be done in order to reduce the level of their anxiety and stress. People are psychologically needy during a collaboration and require the personal touch more than ever. We found that face-to-face communication is more frequently used in high context society like South America while other types of communication using the internet or email are more common in low context societies such as the US and European countries.

### *3.6 Communication facilitates integration*

Communication reduces employee stress and anxiety by managing uncertainty. The General Manager of Banco Itau emphasises the importance of comforting people, by providing sufficient information about a merger and assuring employees that there are plenty of opportunities for all employees in a new company. Open and straight communication facilitates the realisation of merger synergies. He emphasised, “In the absence of communication people assume the worst.”

“Employee swapping” could be an extremely successful communication method. Employees from the target bank are sent to the acquiring bank to understand the corporate cultures and processes of the banks involved. The swap allows for a better blending of the two different cultures through continuous communication and encourages the exchange of experience. Banco Itau and Bank Boston successfully implemented this model. The General Manager of Banco Itau said, “It was important to start building relationships with the acquiring bank by sending some employees of Bank Boston to Banco Itau to learn from them and exchange practices with them.”

Similarly, Wells Fargo uses a “buddy system.” This is a system that assigns people from a recently acquired firm to someone in the acquiring company. A buddy is someone who can answer an employee’s questions regarding new systems, benefits, bonuses, corporate culture, and many other things that he/she may have concerns about. The buddy can be a relatively new employee acquired through an M&A only a few years ago. This allows the buddy to act as a counsellor due to their experience and is therefore better able to understand the emotions a new employee may go through. This process can help train and ease a new employee’s tension while not overloading HR.

We found another effective means of communication called a “pulse survey.” Tensions are very high during M&A activity and sometimes it might be difficult for management to get a good read on what employees are thinking. Citigroup sometimes conducts a pulse survey among the employees of a newly acquired bank when they think they might not have a good understanding of what the employees are feeling. Surveys are conducted to assist management in assessing the effectiveness of a communication strategy and how it may be improved. You might not get a positive response from the employees of the newly acquired bank. But at least you can get a better idea of what is going on, what needs to be changed, or what needs to be focused on. From our interview with the Organisational Development Manager of Banco de Chile, we learned that employees of Banco de Chile were dissatisfied because HR management failed to provide sound communication with Citigroup. Failure to properly communicate resulted in forfeited opportunities for employees to learn from Citi’s global experience, causing employee dissatisfaction.

Finally, communication must come in abundance. M&A involve going through a difficult period of time, which may create distrust between employees and their company. These issues can only be overcome through copious communication. The existence of a communication programme is among the most influential factors in the successful implementation of an M&A (Papadakis, 2005). Furthermore, communication helps to reduce uncertainty and is predictive of affective responses to the acquisition (Kramer et al., 2004). As specified by the Banco de Chile Organisational Development Manager, “Communication is essential in managing and rebuilding employees trust day by day.” The current Chairman of Banco de Chile explained, “It is important for HR to

be near the employees and always deliver the message.” The Transactional Manager of Citigroup expanded on the need for communication by saying “Argentines are afraid of new things and of the unknown, we need to combat this fear with communication.”

#### 4 Summary and conclusion

An extensive global communication network coupled with a higher level of education involved in the banking industry has made the reality of banks working together and/or buying one another an acceptable practice for many employees. This paper examines the three key HR issues to successfully integrate the acquiring and the target entity in the banking industry: retention, compensation, and communication. Table 2 summarises the key findings from our research, highlighting the similarities and differences in HRM practices among the banks from the USA, Europe, and South America. Overall, strict labour laws in Europe and South America help companies emphasise HRM due diligence and communication, which increase the success of M&A. In particular, substantial differences were noted in the retention strategy and negotiation process regarding compensation between the US and both European and South American banks. US banks are found to adopt a short-term approach to selecting top managers whom they want to retain while European and South American banks prefer a long-term approach to facilitating a self-selection process in choosing more capable managers. Due to stringent employment laws and strong labour union influences, it is more difficult for European and South American banks to reach an agreement on adequate compensation and benefits than US banks. However, we found that the strong foundation of labour laws in these countries resulted in a more successful M&A transaction by increasing HRM due diligence and communication. While the methods of communication do not vary much among the interviewed banks, in this sample European and South American banks are found to focus their communication strategy more on motivating the employees to recognise the merit of M&A than on simply reducing the anxiety of the concerned employees. Such difference may be attributable to HR managers’ earlier and intimate involvement in due diligence required by the legal regulations on M&A in these countries.

**Table 2** Major findings in HRM practices from the interviewed banks

| <i>Key issues</i>      | <i>Europe/South America</i>                                                                  | <i>USA</i>                                                                                   |
|------------------------|----------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Retention              | Use a long-term, usually self-selection process for choosing management.                     | Usually decide management immediately and don’t use self-selection process.                  |
| Compensation           | More difficult to reach an agreement due to employment contracts and strong labour union.    | Easier to reach an agreement because employment contracts are limited.                       |
| Labour Union Influence | Labour laws increase HRM due diligence and communication, which increase the success of M&A. | Weaker labour laws put less emphasis on HRM due diligence and communication.                 |
| Communication          | Focus more on selling the merit of M&A and the accrued benefits to the employees.            | Concentrate on reducing the anxiety among the employees about the uncertainty of their jobs. |



Although the contribution of HRM is difficult to quantify, we discovered that it has become one of the most significant metrics to ensure the success of M&A transactions. The current global financial crisis makes the HRM due diligence process even more imperative as acquired companies are likely to bring more baggage and risk to the M&A market. Target companies may attempt to cover up company problems in an effort to appear more marketable to potential buyers. HRM due diligence may also pose more challenges as the acquiring company must assess whether financial weaknesses in the acquired company are due to the sluggish economy, which will disappear when the economy picks up again, or if they are the result of genuine problems that would remain even after an economic recovery. Consequently, HR professionals are under more pressure to perform in an environment of low tolerance for risk. However, these increasing pressures also create greater opportunities for HR professionals to strengthen their role in the acquisition process.

The following managerial implications are drawn from the research results for HR managers to achieve a viable M&A integration. First, the most immediate and critical task of the integration process is to form a qualified and competent integration team to lead the way. This team for the most part should be developed before the merger or acquisition and a specific integration plan should already be in place to further develop the team once the M&A takes place. Second, in developing a retention plan, an acquiring company may have to provide more incentives and assurance for top executives to remain since the current economic crisis affects the compensation negotiation phase of the M&A. In this economic downturn, the key talent in troubled companies may be looking for more stable job opportunities. Third, companies interested in exercising M&A in Europe and South America must be aware of strong union presence in certain countries and their influence on compensation negotiation. Union involvement is not only country specific but also their level of control and involvement may be different on the municipal and industry specific level. For example, state-owned banks have more powerful unions than private banks in Brazil. HR managers must investigate to discover the actual level of union involvement and devise a viable retention strategy. The union and their close and trusted ties to the workers can be a very helpful partner when combining the various workforces. However, serious issues still remain aside from this optimistic point of view. Heightened union control and government intervention could stifle M&A in South American countries. Fourth, HR managers should keep in mind that open and honest communication about the M&A is critical for gaining the trust of affected employees. This approach can help avoid back-channel rumours, which could cripple the productivity of a new organisation. To alleviate anxiety about employee job security in this financial crisis, HR managers are expected to play a greater role in motivating employees and contributing to the new corporate marriage. Finally, HR managers should envisage the most appropriate integration strategy for both firms at the outset of M&A. For merging companies to integrate successfully, they need to align their HRM strategies and overall M&A strategies at the earliest possible date. Unfortunately, in most cases HRM does not get involved until after pre-agreement planning gets underway and we believe this to be a grave mistake. By devising and implementing deliberate HRM strategies, particularly in the pre-merger stages of an M&A, the M&A failure rate will decrease significantly.

We also recognise a few limitations of this research. Since the current research only focused on the banking industry, the findings may be difficult to generalise across other industries. In addition, as the research method solely relied on qualitative interview data

from a relatively small number of banks, quantitative data need to be combined in future research to improve the validity and reliability of the results. However, this paper presents valuable information regarding the similarities and differences in HR's involvement in managing M&A between the major banks residing in three different regions. Our interview results provide HR managers with useful standard practices adopted by major multinational banks during their M&A deals. As such, research findings from this study contribute to enhancing our understanding about how M&A in the banking industry in the respective regions strives to maximise the capabilities of talented managers from M&A, thus improving the performance of the combined companies.

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## **Appendix A Sample Questionnaire**

These questions are designed to seek your honest opinion about your bank's practices regarding the following three issues: retention, compensation, and communication.

### *General Question*

What do you consider the most successful merger and/or acquisition from a human resource perspective?

In your bank, is there a defined M&A HR process used? If so, could you please provide some details on the standard process? If not, how is the process developed for each merger or acquisition?

### *Retention*

During the M&A process, when do you make a decision to implement the retention/layoff strategy?

How do you identify the key employees you want to retain? Are they measured using performance metrics? Company loyalty? Credentials? What are the attributes most highly valued in this process?

What processes are in place to ensure the effective integration of those selected into a cohesive top management staff? What level of input is given to the acquired executives during the retention and layoff strategy?

How does the existence of labour unions in a company affect the HR strategies for retaining and laying off certain employees? What are the major contractual or legal obligations associated with layoffs and retention?

### *Compensation*

During due diligence do you examine closely the compensation and benefit programmes of the acquired company? What are the parts you felt most important?

How do you determine compensation levels of retained managers and employees?

When and how are the benefit policies of the target company analysed? If its benefit packages are inferior to the acquiring company, will benefits be upgraded or will they stay the same?

Does a labour union influence your negotiation about compensation and/or benefits?

### *Communication*

How do you keep employees comfortable and familiar with new organisation policies and a new vision? How do you get employees to buy into new objectives?

What are the most effective and ineffective communication channels used in your bank during an M&A?

What are the methods used by your bank to inform employees about layoffs (verbal, email, formal letters)?

Are the communication methods different depending on whether the informed employee is being laid off or retained?