Changing Sub-Unit Boundaries During a Merger

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Introduction

The desire to leverage intellect, knowledge and technology across rapidly changing industries and markets has formed the logic behind many mergers and acquisitions (M&A) within the past number of years. Integrating the firms post amalgamation, however, is often more difficult than anticipated and has been identified as a factor in many firms' failure to realise expected gains (Ravenscraft and Scherer, 1989; Coopers and Lybrand, 1992; Smith and Hershman, 1997; Marks and Mirvis, 1998; Angwin, 2000). Creating synergies involves financial control and the reduction or elimination of one firm as it becomes part of the acquirer. In contrast, when the aim is to harness knowledge the task becomes one of creating effective transfer mechanisms between the combining firms to allow that knowledge to cross between the combining firms in a bi-directional manner. The critical challenge is to ensure that the staff and skills of both firms remain intact as the planning for and creation of the new organisation takes place. Boundaries play a pivotal role in this process. The many 'dense connections' (Checkland, 1993) between components within organisational systems create the means by which competencies are created within that system. It is the boundaries of the system, the definition of what that system does, its self-identity, who is a member and its relationships to external parties that protect and regulate the system (Scott, 1998). By, intentionally or otherwise, disturbing the boundary of the firm the very capabilities the acquisition is aiming to utilise may be damaged. The competencies may not be fully understood and alterations to the people, processes or structure may inadvertently damage connections that create competencies. Unintended effects may occur in a number of ways. Prematurely disturbing the boundaries may result in the organisation feeling threatened and as a result their boundaries may erect to close off the firms from one another. Social identity processes (Tajfel, 1974; Tajfel and Turner, 1986) that create 'them' and 'us' behaviour patterns or that create lower levels of post-merger identity with the new firm may emerge (van Knippenberg and van Leewen 2001; Terry, 2001) resulting in low levels of integration. Disturbing boundaries too early may also result in staff feeling that undue interference is taking place and the levels of staff turnover, stress and distrust may rise as a consequence (Marks and Mirvis, 1998). The key human assets of the firm will accordingly be lost or disengaged. In contrast, disturbing the boundaries too late may result in the knowledge and skills of each firm polarising within the pre-merged structures and not transferring between them. The potential to create transfer mechanisms may be lost or become sub-optimal as a result and the commercial opportunities arising from the merger may be missed.

This discussion points to the importance of understanding what happens to organisational boundaries as firms embark upon integrating an acquisition. Surprisingly, however, little has been written to date on this specific issue. The paper takes on the challenge by examining the boundaries of two sets of similar organisational sub-units (retail branches) that amalgamated within a merger between two international organisations. Both sets of branches faced the same operating environment, sold the same product ranges and are subject to the same central head office systems and controls. The merger was driven by the need to adopt the best products and procedures from each firm and create a new 'best of both' organisation. Yet the extent to which a new unified boundary was achieved within the combined branches varied, with one sub-unit creating a more unified boundary than the other. This paper attempts to explain why the boundaries of the new units differed between the two combined units by reference to the processes undertaken in each set of combining branches. This paper will start by building a construct of what constitutes a boundary and how that boundary might alter and change. It will then discuss the two studies undertaken and discuss the variations in the way the boundaries changed in each. The aim of this discussion is to develop a set of propositions that might serve as the basis for future research and also identify critical areas of attention that practicing managers might address.

Understanding Boundaries

The concept of boundary is common to many disciplines as diverse as geopolitical theories (Paasi, 1999), communication (Petronio et al., 1998), transaction cost economics (Williamson, 1994; Barney, 1999), psychology (Tajfel and Turner, 1986; Puddifut, 1997), sociology (Hawley, 1995), leadership (Gilmore, 1982) and strategy (Jemison, 1984; Brooks, 1995; Barney, 1999). In recent years the concept of boundary management or boundary maintenance has entered into the lexicon of management and organisation theory. It has developed to mean the ways in which the organisation balances the external instability in the environment with the internal need for order (Llewellyn, 1994). It recognises the important role that organisational boundaries play in filtering and interpreting environmental clues in an effort to maintain identity (Llewellyn, 1994) and sustain the balance between 'autonomy' and 'dependence' (Clegg, 1990). Issues of identity, dependence and autonomy are central to much of the emerging literature on M&A integration (Hogg and Terry, 2001), as they represent the potential for inter-group conflict to occur within the integration process. In this regard mismanaged boundaries may represent potentially significant impediments to the creation of a unified group post-integration.

Boundaries are a complex phenomenon and there are many challenges in defining them. Unpicking the variety of works that address boundaries (usually indirectly), two consistent concepts emerge that may be used to define and measure boundaries: the concept of boundaries as signifying difference and the concept of boundaries as varying in salience within any given context.

Boundaries as Difference

The most common approach to defining boundaries is to consider what is within or without the organisation and the way inside and outside are differentiated. Aldrich and Herker (1997) talk about the distinction between members and non-members, while Scott (1998) talks about the criteria used in determining whom to admit or reject. This is linked to a view of a boundary as a protective device that limits the external influence on the organisation (Thompson, 1967; Leifer and Delbecq, 1978). Organisations must manage dependencies that arise from their need to acquire resources from and dispose of outputs to the environment (Pfeffer and Salancik, 1978). A boundary exists at the point between the organisation and its environment and serves to reduce or eliminate the power others may potentially hold over the organisation by regulating the flow of information, people and resources. For instance, Thompson (1967) reviews the mechanisms by which internal operations may be closed off from external variations, and Pfeffer and Salancik (1978) consider how boundary spanning and linkages may reduce the influence of outside interest groups on the organisation. The common characteristic of these views is the presence of a clear definition of the differences that distinguish between inside and outside the organisation, through the identification of physical entities, people, technology or products, that reside in a defined space relative to the organisation.

In addition boundaries can be considered as the created or enacted (Ashford et al., 2000) difference between the organisation and its environment. As well as physical elements a boundary will also have cognitive elements. Boundaries are ways in which individuals (or organisations) can simplify and order their environment (Zerubavel, 1991; Michaelsel and Johnson, 1997) by building 'mental fences' (Zerubavel, 1991) around domains that make sense to the individual. Simplification occurs when the boundary helps to define what roles and responsibilities exist within that domain and what behaviour is expected when situated within that domain and how that differs from those outside of that domain. Similarly, the existence of demarcated domains facilitates a clearer understanding of the relationship between those domains and reinforces the expected behavioural characteristics of individuals or organisations situated within those domains. Ashford et al. (2000) consider how individuals construct role boundaries within organisations to understand the way in which they cross from work to other domains of activity. They argue that the existence of domains enables groups to evolve and differentiate within those domains along physical, cognitive and relational dimensions. This discussion suggests that boundaries are socially constructed, residing in the minds of those who create the boundaries. They are, as Bacharach et al. (2000) suggest, 'limits of self' and, as Nippert-Eng (1996a; 1996b) have shown, 'idiosyncratically constructed'.

The Salience of Boundaries

Defining boundaries as differences between groups can be problematic in so far as not all differences may create a boundary within a given context. A distinction needs to be created between differences as the potential to form boundaries and differences as boundaries. Some group differences, for example gender or nationality, may be permanent and unchangeable but will not always differentiate groups. It may be relevant in some cases, for example a social discourse, but not in others, such as a work context. For any given social context, therefore, there may be a number of possible dimensions on which groups can be divided but that is not to suggest that the division is one that the groups themselves enact as a difference in that social context. In this respect, the existence of boundaries *per se* will not have any influence on events; it is the group's definition of that boundary as salient in the given context that counts. In M&A terms, integration problems can be expected not because of the existence of differences, whether actual or perceived, but when the differences become defined as important and salient. Critical questions for this paper are how do boundaries become salient within the M&A and how do changes in boundaries subsequently occur. Little in the literature fully explains how boundary changes occur in social contexts. Hawley's (1995) explanation of the Amish entrepreneur who continually redefined her boundaries with her community provides some explanation of boundary changes. In this instance, the entrepreneur continually 'pushed the limits' of acceptable behaviour until she was refused permission to continue. In this way, the boundary was identified through it being physically challenged. A key element of the challenge was the manner in which the boundary extension was justified and positioned by the entrepreneur and its alignment with the interests of the community. Similarly, Gilmore (1982) has considered the leader as a creator of environments through the negotiation of boundaries and the regulation of transactions across those boundaries, while Bacharach et al. (2000) have discussed boundary setting as a managerial device used to manage relationships. Central to these works is the importance of inter-subjective assessments in understanding both the existing boundaries and the logic of why those boundaries are changing.

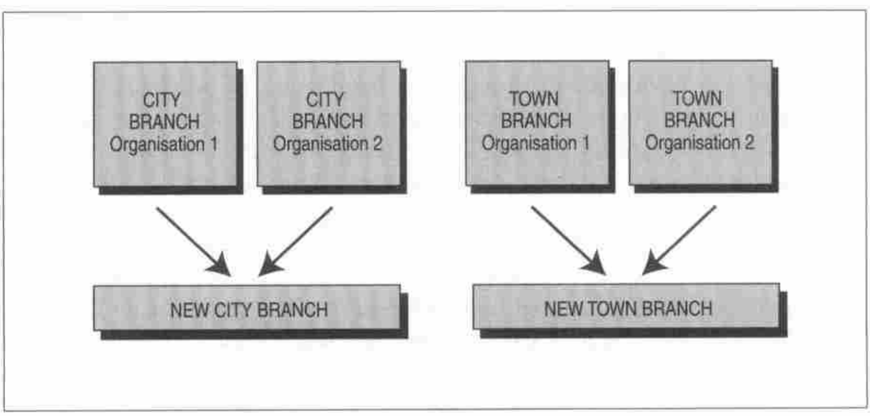
Any measurement of boundaries must therefore focus on two dimensions. First, boundaries are concerned with differences, whether perceived or actual. Second, boundaries can only have an influence when they are salient within a given context. Any useful definition of boundary must therefore include these two aspects. Hence the definition applied here is that a boundary is any difference between two groups that is used to differentiate between those groups

Methodology and Method

The exploratory nature of the research question suggests the case method (Yin, 1993; 1994) would be appropriate as the broad methodological approach to be used. The unit of analysis adopted was at the sub-unit, more specifically the branch network within the organisation. Two studies were undertaken containing a set of merged branches from each of the combining firms (see Figure 12.1). This represented four amalgamating branches combining into two post-amalgamation branches. The purpose of the study was to explore how the boundaries of a unit reformed within an M&A. Two sets of merging sub-units were chosen for study as the sub-units faced the same environment and processes and shared a similar history and culture. In this respect, the data allowed comparisons between the two sub-units to be made and any variations in the boundaries of the units post-amalgamation to be explored and explained in terms of the sub-unit processes rather that the integration process as a whole.

The focus on the sub-unit rather than the organisation as a whole is methodologically novel within the M&A field, with no other reported study comparing and contrasting intra-organisational differences as a main research focus. Where sub-units have been the focus of analysis it is usually in terms of functional units (i.e. Research and Development) across organisations (for example Birkinshaw et al., 2000). There are some notable advantages of using the sub-unit as the unit of analysis. First, the sub-unit is the actual level at which combining organisations merge. It is therefore more appropriate to discuss the merging of sub-units than the merging of organisations. Second, there is a strong acceptance that individual sub-units differ in their structural and operational characteristics even within a single firm (Lawrence and Lorsch, 1967) and accordingly by inference the boundaries they support may vary intra-organisationally.

Figure 12.1 The Two Studies



The data reported here were collected over a three-month period through the use of semi-structured interviews. In total, twelve interviews were conducted with each interview lasting approximately one hour. The City study consisted of five interviews (the branch manager and two staff from each of the two combining units) and was conducted six months post-amalgamation of the branches. The Town study was undertaken on a longitudinal basis with data collected one month prior (three interviews) to the amalgamation, at the amalgamation date (two interviews) and two months post-amalgamation (two interviews). All interviews were conducted in the premises of the informant and were recorded. Significant archival data were also collected prior to the commencement of the data collection phase. This consisted of internal management reports developed by the integration planning office and internal company communication materials such as newsletters and memos. Data were also collected through discussions with the integration manager and with the senior regional managers of the sub-units via telephone and email.

Measures

A research protocol instrument was developed to ensure consistency in the manner in which the interviews were conducted. Given the exploratory nature of the research the protocol consisted of general themes to be explored. The interviews were conducted with a general theme being introduced and then followed up with more specific questioning and discussion arising from that general theme.

Two key constructs needed to be measured: first, a means of identifying boundaries for each of the sub-units; second, a means of assessing unity of boundaries post-amalgamation. Boundaries were explored in interviews by asking the informants about their unit and the differences between their unit and others. A boundary was identified when the data pointed to a clear factor that facilitated categorising the two merging units into separate groups. Physical, behavioural or cognitive differences emerged from the data. Boundaries typically manifested themselves in terms of product and work-flow differences, behaviour toward customers and values or attitudes held. For instance, at a general level, one of the organisations within the study was perceived as handling 'retail' products and was perceived as behaving and thinking in a manner consistent with that product set and that these were different to the longer term outlook of the other merging partner.

A second measurement required was the unity of boundaries that was achieved post-amalgamation. The unity of boundaries is the extent to which the two firms are integrated into a co-ordinated whole. In merger terms, this means the extent to which the activities of the combining firms are co-ordinated together. Shrivastava (1986) considered integration in terms of the physical, procedures and socio-cultural measures. Drawing on this a number of measures were developed to assess the level of integration, notably the extent to which the staff of one sub-unit was capable of conducting the work previously completed by the other sub-unit, the familiarity of both sets of staff with the work processes and procedures of the other, the perceived level of social interaction and lastly the extent to which the new group considered themselves as a unified team.

Data Analysis

All interviews were transcribed and input into the qualitative software package Nvivo. An iterative approach to data analysis was adopted (Strauss and Corbin, 1997). The first phase consisted of reviewing the transcripts and tapes and identifying recurring themes that emerged. These themes were coded. The codes were repeatedly reviewed and collapsed into the major themes identified. The themes identified were then discussed with an informant within the organisation (manager within another branch) to confirm that they were valid interpretations.

The Case Context[1]

The case involves the acquisition of the Retail Company (RC) by Contract and Capital Sales (CCS). The RC was a reasonably small company in terms of the industry. It specialised in the consumer retail sector of the market. It had a head office structure and 82 branches throughout the country with a staff well in excess of 1,000. The business concentrated on day-to-day products and services that would be used on a frequent and regular basis by the customer. The company resold some of the products of CCS but also resold many competing offerings. RC had been aware that they needed greater scale and scope to compete in an ever more competitive market and had been the target of several suitors prior to the acceptance of the CCS deal.

The CCS group emerged from the merger of Contract Ltd and Capital Ltd some years previously. Both firms were market leaders in their segments of the market. While Capital Co., had some retail operations it remained focused on capital (long-term) products. A huge hindrance to it developing its retail operations was the lack of access to specific parts of the distribution system which were critical factors in the delivery of effective services to the customer. Indeed CCS was using a competitor to provide these services, resulting in longer processing times, slower services to the customer and greater cost.

The strategic logic behind the acquisition of RS was reasonably simple yet very powerful. By merging the Capital operations and the RS operations into one large retail force, it would enjoy full access to the distribution systems of RS and have the necessary scale and extended product ranges of both RS and CCS to compete effectively within the industry. This new force would also be a tied agent for Contract's products, increasing the capacity to cross sell services and products. While there would be some cost efficiencies from the elimination of duplicate head office and support functions and from the rationalisation of the branch networks, the real value in the deal was the capacity to offer an extended range of products to a wider customer base. This extended range of products would emerge from combining the best products and processes from each firm.

The Branch Network

One of the major challenges in achieving the strategic goals was designing and implementing an effective branch network. Combined, Capital and RS operated a branch network of 150 branches. The new organisation, Capital RS, was to reduce this figure by about 40 branches to 110. This reduction was to come about through the merging of branches and the redistribution of staff rather than any rationalisation of the staff or operations. Indeed guarantees of no redundancies were presented. Many of the branches were located in close proximity to one another and were easily identifiable as potentially mergeable. The product range adopted by the new firm built on the strengths of each partner with the main products of each being selected as the new firm's offering. Both organisations therefore retained what they would have seen as their key products. Decisions regarding the technical infrastructure such as IT systems also logically followed from the key strengths with aspects of both firms' systems being combined. Key technical issues had to be resolved to facilitate this technology combination and dual systems, with both the RS and Capital systems used within each branch, operated until June 2002 when a unified IT system developed by the IT department became operational. Branch amalgamations were undertaken on a phased basis. A small number of branches were combined prior to the end of 2001 with the remaining completed between February and May 2002. A key element of this phased process was the ability of the integration team to 'learn' about the issues and problems on a phased basis and adjust their preparation for each branch combining in the face of this experience.

The Organisational Cultures

On the surface, the cultures of the two combining organisations looked similar. Both organisations espoused the importance of customer service and their commitment to providing quality services. Capital was, however, very focused on achieving volume and aggressively selling their product ranges. In contrast, RS focused more on the long-term relationship with the customer and was more service focused and facilitatory in the way it sold its product range. It was more risk adverse and procedurally driven than Capital. The general feeling toward the merger was that RS staff were more favourably positioned than the Capital staff: they had substantial benefits from an employee share option scheme, had better terms and working conditions and were likely to dominate the amalgamation given the focus on retail operations. The integration management allocated considerable resources to the development of cultural understanding through significant investment in communication and intra-organisational contacts. These contacts took the form of training in products/services, pre-branch amalgamation meetings and forums, and local social events. Many of these events were also organised by local branch managers.

The State of the Merger

Sixteen months after the acquisition had been approved and almost two years after the initial offer, the new Capital RS had amalgamated its branch network and its support structures. Its success was summed up in a press interview up by the director who headed up the new firm when he stated that the merger was 'as close to a textbook merger as you can get'. Difficulties were acknowledged, however, especially around the nature of customer service, which, given the demands on staff, may not have been as good as it should have been. But generally, the integration of the two organisations as a whole had gone broadly according to plan and the financial outlook for the firm was very positive.

The Case Study Units

Two sets of combining branches form the basis of the discussion. For convenience, they will be called the City study and the Town study (there is no significance in the location). The City study consisted of two merging branches based in a regional city. They were located in very close proximity, practically next door to one another, within a newly built complex of shops located just off a busy main road in a reasonably affluent suburb. Both branches had traded for approximately three years and both were of similar size with five to six staff each. The amalgamation of these branches occurred early in the cycle of branch amalgamations and was considered somewhat of a pilot amalgamation. The second set of amalgamating branches, the Town study, was located in a major provincial town with a population of circa 10,000. The branches were located a couple of hundred metres apart on adjoining roads in the town centre. The Capital unit had been in the town for around twenty years while the RS had been operating there for the last ten years. The manager in each branch was the only staff member to be in the branch since it began trading in the town. Again, the branches were of similar size with a staff complement of around eleven in each branch. The Town branch amalgamation was one of the last branch amalgamations to take place, occurring approximately six moths after the City study.

Findings and Discussion

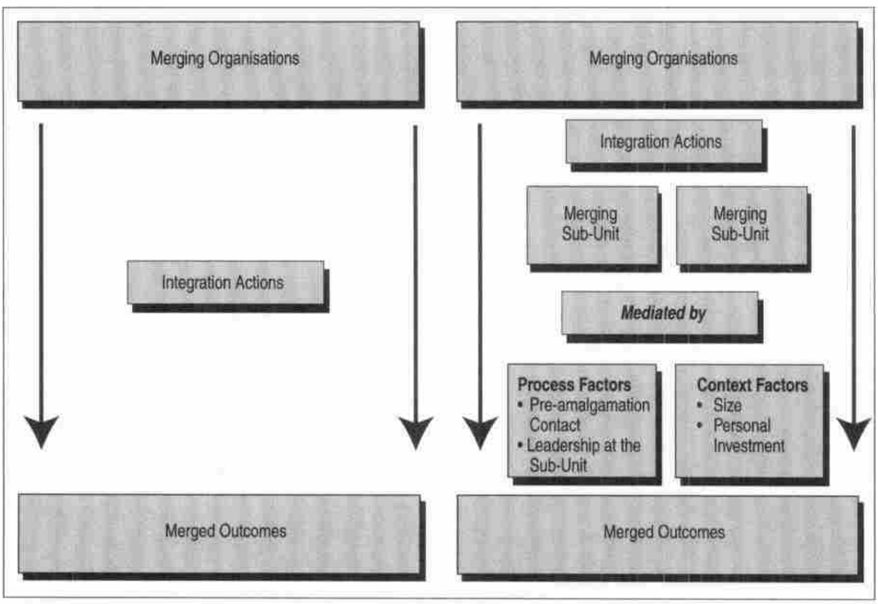
There was a clear variation in the perceived level of integration achieved between the two studies. In the City study, there was a clearly co-ordinated effort and an emerging consistent perspective on how the branch would move forward to meet its targets. There was a sense of everyone pulling together and working as a team. While differences and conflicts emerged between branch members, effective mechanisms for dealing with them had been developed. In contrast, the perceived level of integration post-amalgamation in the Town study was somewhat lower than in the City study. While teams were working together, there were clear outliers and the conflicts and differences that were emerging in the branch were not perceived as being dealt with effectively. The climate in the branch was described as poor and the level of stress experienced by staff was seen as very high.

The Integration Processes

While the integration process was consistent for all the branches amalgamated there were nonetheless some differences in the ways in which the two studies engaged that process and these may explain the differences in the level of integration achieved in the studies. Traditional approaches to integration assume that the level of integration achieved is determined by the actions taken at the firm level. However, the data here suggest that the sub-units operations and actions influenced the way the integration unfolded. Figure 12.2 suggests a traditional interpretation in which new organisational boundaries emerge as the actions undertaken by the corporate head office affects all the sub-units in a similar manner. The data, however, suggest that the there were a number of factors that mediated the relationship identified in Figure 12.2. Figure 12.3 identifies the key themes that emerged from the data. There were clear forces driven by the head office that facilitated the creation of unified boundaries post-integration but the manner in which two of these forces were engaged at the level of the two combining sub-units studied varied. These variations can be tied to the differences in the perceived extent to which unified boundaries were created post the amalgamation. The first issue is the extent to which the pre-merged branches interacted prior to the amalgamation and the second is the role the leaders of the branches played in shaping the integration processes. Two contextual factors may also have affected the process, the size of the branches and the level of personal investment in the new branch.

Figure 12.2 Traditional Approach to Integration

Figure 12.3 Mediating Variables



Pre-amalgamation Contact

A clear pillar of the integration process was the aim of creating dialogue and contact between the RS and Capital branches prior to the physical amalgamation. In this way the staff within each branch would have a clearer understanding both of the requirements of the new branch and also of the additional staff that they would be working alongside. There were many initiatives that created the contact, directly and indirectly. There was a substantial investment in training both off-site and on the job. This took the form of a general cross training in systems and procedures where the RS staff would learn about the Capital systems and vice versa. There was also extensive communication through organised 'road-shows,' intra-nets and newsletters aimed at explaining the integration and the new cultural and procedural values going forward. In addition, communication liaison officers were assigned in each RS and Capital branch to act as co-ordinators of the branch amalgamation and disseminators of information. The integration team also had pre-amalgamation meetings where the staff of the amalgamating branches came together and discussed their fears and concerns. A critical aspect of the pre-amalgamation contact was a programme of staff 'swapping' where staff of one of the amalgamating branch would spend the day at the other branch seeing how they performed the same tasks. This was seen as a potentially effective way of conducting on-the-job training and also getting to know the branch and the staff.

The experience of the City and Town studies, however, varied in the manner in which these initiatives were engaged. In the City study, the process of creating high levels of pre-merger contact was clearly evident. The two sides were quick to open dialogue with staff 'dropping in and out' of the two branches and exchanging pleasantries pre-amalgamation. The groups reported 'getting on grand' very early on, driven by the two managers' visible attempts at getting the two groups together. There were many attempts at morale and team building both on the work side, through training and staff contact, and also on a social side with a number of nights out going to a bar or to dinner.

While the same procedures were in place in the Town study, there appeared to be a lower level of contact and cross fertilisation actually achieved. While an amount of staff swapping and training took place pre-amalgamation, neither side appeared to engage it wholeheartedly. It was described as 'wavering' and 'stopping'. This was in part attributed to the extensive work pressures that both the RS and Capital branches were under and the problem of having only one manager across two branches. There was also, however, an impression that the 'other side' 'didn't seem to want to' or that they had a desire to stick with what they knew. In addition, there was less meaningful contact in staff moving from one branch to another and there was less of a sense of being welcome when actually in the other's branch. This was also reflected in the social outings that the branches organised, which were poorly attended and described as 'strange.'

The discussion ties closely with the suggestions of Haspeslagh and Jemison (1991) who call for the need to create interim processes that allow for the transfer of capabilities to occur. Similarly, Marks and Mirvis (1998) emphasise the importance of interim structures to facilitate working together and getting to know one another. The data here, however, show that merely creating the contact is insufficient to generate unified boundaries. The two sub-units had exactly the same contact structures and had exactly the same opportunities in terms of pre-merger contact. They had the same support structures from the head office and the integration team and had similar contexts to one another. However, the extent to which the boundaries were unified and the group operated as a single team was different in each group, with the Town branch showing lower levels of unification. The data clearly showed a lower level of effectiveness in the contact achieved in the Town study. A number of factors may account for the lower level of effectiveness. There were some contextual influences such as work pressures and staff shortages and there was also the impact of leadership and direction (this issue will be addressed later). The contact was seen as positive in the City study. It was frequently referred to in terms of how it facilitated an understanding of what each set of staff from the branches was about and how it facilitated an understanding of what the work environment would be like post-amalgamation. The role of the branch manager in co-ordinating this effort and being a key driver of it was central to the perception of the importance the staff assigned to the activities. In contrast, the Town study staff felt too busy to engage in contact activities or to participate in the branch exchange programme. This was supported by stories of how staff were rude to one another or failed to facilitate or explain. For instance, when during staff exchanges they were faced with a question or task they could not complete they were often 'bundled out of the way' rather than shown how to resolve the issue. In this way, contact was seen as not being relevant and as time wasting, given the time pressures that the branches faced. The link between the value of contact and the final outcome of the merger was not clear.

The data point to the need to consider the concept of contact between the parties in more detail. Three dimensions appear within the studies. The first is the extent of the contact. The City study showed far greater frequency of contact than the Town study. The messages being portrayed with the socialisation of two combining groups are complex and ambiguous and, as a result, the extent to which the groups meet more frequently may facilitate a greater clarity in decoding those messages. Staff in the City study explained how they grew in confidence as the extent of contact between the combining staffs progressed. The second dimension is the type of contact. The branch staff made contact with each other (and with other staff in the wider organisations) in a variety of ways. These included branch exchanges, branch training days, social events as well as wider organisational events such as off-branch training, workshops and general informational road shows. It is not clearly evident in the data what affects the variety of contacts had individually within the cases. The City study clearly engaged the full range more positively but they did have the benefit of being amalgamated early in the schedule of amalgamations. In contrast, the Town branches, being amalgamated much later, may have had more exposure to a variety of types of contact but may also have been confused by the variety of differing signals or by a sheer overload of activities. The third dimension identified is the relevance of the contact to the branch. The staff in the Town study, in particular, felt much of the contacts they experienced did not have relevance for them. For example they felt training took place on systems they would never use or would only use in the future and that they would have forgotten by then, that the staff in the other branch they were combining with did not want staff exchanges to take place and that they were too busy to participate. It appears from the data that the perceived relevance of the contact will determine the extent to which the contact has any potential influence on creating a new boundary. These three dimensions of contact may be important determinants of the level of post-integration boundary formation and this leads to the following proposition.

> **Proposition 1:** The perceived extent, type and relevance of pre-merger contact affects the potential to realise new unified boundaries post-amalgamation.

The Role of Leadership

The importance of leadership has been well documented in the M&A literature (Haspeslagh and Jemison, 1991; Angwin 2000; Galpin and Hernon, 2000). Much of this literature talks about the need to create a vision which the new organisational members can buy into and adopt as their own. The processes discussed here, however, relate to the sub-unit level. While a clear organisational vision existed, the concern at the sub-unit was with the vision at that level. This is consistent with the findings of Hubbard (2001), who charted the differences in the concerns of staff at various organisational levels and highlighted the importance of group unity. In both the Town and City studies, the leader was the central focal point of the branch and the person to whom the staff looked for direction and leadership. A critical difference in terms of pre-amalgamation contact was the interaction the staff of each branch had with the prospective new manager of the amalgamated branch. While this interaction would have occurred partly by the socialisation and general interaction between the two branches, there were also clear indications that the presence of the manager as a visible sign of leadership in the workflow and in the amalgamation activities also had an impact. All staff informants reported the importance of the branch manager as their key decision maker and referent icon and often indicated the mentoring role the manager played for them in their job.

In both studies, the RS branch manager was appointed to the post of manager of the new Capital RS. In the City study, this arose as a result of the Capital manager being appointed to a post in a different section and his staff saw this as the direction in which he wanted to take his career. In the Town study, the Capital manager was appointed to an alternate branch in the region. This decision was not necessarily a popular decision among the relocated manager's former staff. The Town branch was also affected by the transfer out of the Capital manager to his new post some months prior to the actual amalgamation of the Town branches. The RS manager was consequently responsible for the management of two branches in the period leading up to amalgamation. This created a difficult position for the new amalgamated manager. On the one hand, he had a huge work pressure with two groups to manage in separate locations. On the other hand, the Capital staff had a huge expectation of leadership from their new leader, looking for direction, support and role clarity prior to the amalgamation. A clear message that came from the data was the importance of the manager as the ultimate decision maker within the branch and a concern of staff in both the Capital branch in the Town and City studies was how they would get on with the manager post-amalgamation. There was an obvious fear that the RS side of operations would be the dominant one and that former RS staff would get priority in the manager's decisions. In the City merger, this was tackled early on in the process, partly through the pre-amalgamation processes but also through conscious interventions on the part of the manager. He actively engaged the Capital staff and was very visible in trying to understand their operations and their concerns. In this manner, he was seen as a team builder and the Capital staff became exposed to the manager's expectations prior to the actual amalgamation. In contrast, the Town amalgamation had far less contact from the manager and at the time of amalgamation and indeed post-amalgamation, the Capital staff did not feel confident of the expectations of the manager or indeed the manner in which the work environment might change as a result of his leadership. They reported 'not knowing the guy' or how 'far they can push him'. The decision criteria used by the previous manager were clearly understood by the staff and they knew how to approach him to maximise the chance of getting a favourable decision. The acceptance of the manager as the ultimate decision maker and the lack of perceived guidance on decision preferences left a great deal of uncertainty with the Capital branch. This also had the impact of staff inferring in some instances that the manager might be more favourably disposed to RS staff than Capital staff, although this fear subsided as the integration progressed. The perceived lack of leadership and continuity led one informant to conclude that the lack of knowledge about the new manager meant the merger was 'like starting a whole new job'.

In contrast, the attitude within the City study was that the managers of both amalgamating branches were far more visible and active in the integration process. The Capital staff felt far more prepared for working with the new manager and knew how they fitted into the new branch structure. The manager even took it upon himself to be the integration liaison officer in the branch and directly involved himself in even the smallest staff issues around the amalgamation

The findings portray a strong picture of the way leadership creates a strong group structure. The value of 'the team' with the manager at the helm was a central theme in many of the discussions. This created a defined social order and expectation within the branch. Both studies portrayed pre-merger structures that were based on the importance of fitting into the social structure of the branch and adhering to the social norms. These structures were based on the workflow requirements stemming from the size of the branch and the nature of the work as well as cultural norms created by the leader. In effect, these local-level processes create a micro system (the branch within the larger organisation) that, while interdependent with the wider organisational system, is sufficiently autonomous to have a discrete identity. Both sets of branches pre-merger espoused strong affinity and identity with the pre-merger firm. Post-amalgamation, however, the two studies showed differing extents to which the new identity evidenced a stable social order. In the City study, the leader rallied around both sets of staff and acted as a catalyst that created a new structure and identity. Once a new social structure becomes a possibility, that social structure itself may act as a discipline mechanism that creates a new boundary through socialisation of its members. The second proposition emerges from this discussion.

> **Proposition 2:** The greater the involvement of the unit leader in forming socialisation processes, the greater the potential to realise new unified sub-unit boundaries post-amalgamation.

Branch Size

The size of the branch may have played an important part in how the integration process unfolded in each of the studies. The City study consisted of two small branches of approximately five staff each. This micro size creates a 'family' style environment with strong interdependencies within the group, both in terms of the workflow and in terms of support in the social context of the work environment. The culture of the branch was described in these terms by the staff and one of the largest concerns at the announcement of the deal was the fear of the group being broken up or transferred into a much larger branch. The importance of group membership and the influence of that membership on behaviour has been well documented in the psychology literature (for example, Tajfel and Turner, 1986; Turner et al., 1989; Doosje et al., 1995; Drury and Reicher, 1999). The effect of the importance of the 'team' and group membership in the branches is that it provides a mechanism whereby the staff of the branch can effectively moderate behaviour of its members. In a way, the size limits the capacity to have dissenting groups within the structure. Indeed a clear cultural value emerging from the data was the need for this group to have good social relations within the work environment. The extension of that group to ten staff, while significant, probably still permits the group to exercise some social control over the membership. In this way, the size created a clear boundary, on the one hand, but on the other hand, by its very presence created a mechanism to overcome that boundary (the boundary was an issue of difference but was insufficient to differentiate it or motivate the individual group to apply it as a differentiating criterion).

In the case of the Town branch, the combining branches were twice as big, with the amalgamated branch having circa twenty staff. This may allow differences to develop more readily and accordingly the potential for boundaries to emerge and to polarise groups become more plentiful. Size and leadership are closely intertwined in so far as the ability of the leader to create the micro-level system will be mediated the larger the group becomes. In this respect, another proposition may be proposed.

Proposition 3: The ability of the sub-unit leader to create a micro-environment that creates unifying socialisation processes may be a function of the overall size of the sub-unit. In this respect, the greater the size of the sub-unit post-merger, the lower the potential to realise new unified sub-unit boundaries post-amalgamation.

Personal Investment

Another finding that emerged was the varying extents to which the staff of the branches felt there was a personal investment for them in creating the new merged branch. This investment can be considered as the extent to which the members of the branches felt personally motivated to alter the boundaries of their organisation to accommodate the amalgamation. A similar idea to personal investment was discussed by van Knippenberg and van Leeuwen (2001) who suggest that the greater the sense of continuity from old to new perceived by staff, the greater the post-merger identification with the new firm. The investment evident in the two studies arose from a number of sources. First, the branch unit, as has been described, was a highly interdependent environment from both a task and a socialisation point. A substantial desire was expressed by all the interviewees to maintain the cohesiveness of the unit going forward and that the team spirit that existed would be maintained. In this regard, the staff had the desire to establish good relations with their new colleagues. However, there were some variations in the extent to which the staff in the two studies felt this could be achieved. In the City study there was genuine fear that the enlarged size of the branch might hinder the ability of the branch to create this team environment. In contrast, within the Town branch, there was a stronger expectation that the new size of the branch would make it far more impersonal and that the team environment would be lost. The second issue linked to this idea of personal investment is the amount of work pressure the staff felt. The Town study reported significant work loads and staff shortages and these acted to reduce the commitment levels to the unit. This leads to the fourth proposition.

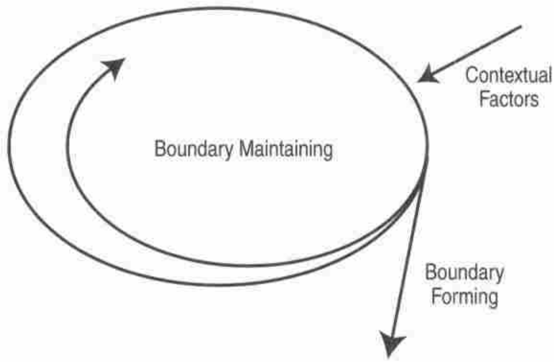
Proposition 4: The greater the level of personal investment of staff in the new organisation, the greater the potential to realise unified boundaries post-amalgamation. The level of personal investment is characterised by the cohesiveness of the group socialisation processes and the extent to which they feel the achievement of a new group is possible.

Salience: Boundary Forming and Boundary Maintaining

A critical question this paper addresses is the question of what activates a boundary and makes it salient. The differences in the integration process within each study provide some potential explanations. This was explored in the data by examining how the informants created their understanding of the differences between the two combining units and how these emerged over time. There appear to be two forces at play (Figure 12.4) set within the wider contextual pressures facing the merger. On the one hand, there are forces that are striving to maintain the existing physical, behavioural and cognitive structure that existed for the pre-merged entity. These forces valued the identity of the pre-merger unit and were usually expressed as a nostalgic sense of loss. These forces consisted primarily of the fear and concerns that staff of the branches encountered. The loss of leadership, the loss of the branch team structure, and the enlarged size of the branch were all examples. On the other hand, there were forces that were creating new boundary forms that could replace the existing physical, behavioural and cognitive structure. These included the new leadership given at the branch level, the amount of training and pre-merger contacts that shaped understandings and created a clearer expectation of the future and the motivating of staff to invest personally in the new entity. Contrasting the two cases, these forces often stemmed from the same activity but had a differing strength or direction. For example, the new leadership in the City branch drove together the two staffs forming new boundaries around the team. The Town branch in contrast saw the branch manager's actions as solidifying old boundaries rather than forming new boundaries. This finding has significant implications for the management of boundaries. Formation of new boundaries may not be related to the actual actions or interventions that occur but the way in which those actions are engaged at the sub-unit level. The critical factors that must be managed are the socialisation and identity-forming process within the sub-unit and the effect the activities driving the integration have on those processes if the combined unit is to have a unified boundary. In addition, these driving forces are set within a context of the wider integration and the context of the micro system that was created within each sub-unit. At the micro level, the size of the branch, socialisation processes and the personal investment of staff are probably the best examples of contextual influences. At the organisational level, issues or events outside of the control of the branch such as work pressures would also impact. Boundaries will become salient when the boundary-maintaining forces are equal to or greater than the boundary-forming forces. To the extent that an organisation builds effective boundary-forming forces, the integration should proceed more effectively and fewer boundary problems will occur. Another implication of this model is that the extent of integration is a function of the relative strength of both forces vis à vis each other. Where one force outweighs the other then that force will shape the process. When the forces are more evenly balanced, then the integration will proceed at a slower pace. This is entirely consistent with the lower level of integration achieved in the Town study. The forces for boundary formation would appear to be stronger than those that are boundary maintaining but not as strong as those of City branch. It could therefore be suggested that the Town branch will in time achieve the same level of integration but over a longer time-frame. This discussion again allows for a proposition to be put forward.

Proposition 5: For new boundaries to emerge, the forces for boundary formation must be greater than the forces for boundary maintenance.

Figure 12.4 A Model of Boundary Forming and Boundary Maintaining



Conclusion

The aim of this paper has been to explore how boundaries change in an M&A and to draw some exploratory propositions for future research. In this respect, the paper has suggested some new directions for development. The notion of boundary has proved useful in exploring the variation in the level of integration achieved in the studies and appears a promising angle for future research. A key concept emerging from the research is the importance of the sub-unit as the unit of analysis for research. There may be significant differences between sub-units in terms of the way the integration effort of the firm is translated into operational achievements. Indeed one of the weaknesses in the existing literature is the failure to account for variations that may occur within the organisation. This paper clearly identifies that sub-units react in differing ways to one another and may accordingly achieve differing levels of integration, notwithstanding that they operate within the same context. Management attention therefore needs to be focused not only on the process of integration but also on how each sub-unit may be engaging that process. A second key contribution of the paper is the identification of the sub-unit as a potential micro-level environment where there are simultaneous forces driving both new boundary formation and supporting existing boundaries. In this regard, boundaries are unique to each sub-unit and have the potential to vary significantly even across sub-units that are similar in task and socio-cultural ways. Whether a potential boundary becomes salient is a process outcome determined by the interaction of the sub-unit with the integration process and by whether the actions are sufficiently strong to form new organisational boundaries. Managing sub-unit integration is therefore dependent on the effective management of these forces. Two variables appear particularly important in the management of this process. Contact between the combining units appears to be a central mechanism of knowledge and information transfer. Where this contact is managed meaningfully, as in the City study, then the potential to merge more effectively and to create a unified team is enhanced. Leadership roles in M&As have been well documented in the existing literature but the findings here differ in so far as it is not corporate leadership but the leadership at the level of the sub-unit that is important. In effect, it is the middle management of the organisation that is achieving the integration goals. Staff seek support and reassurance from their immediate leaders and look to their actions as symbols of the integration as a whole.

Another key implication of this research is the need to shape reality for staff. M&As are complex times of great change for staff, characterised by stress and uncertainty (Cartwright and Cooper, 1997; Marks and Mirvis, 1998). They are times when staff seek out meaningful ways of understanding the events unfolding around them, as well as the changes they must face in both staff and task terms. The contacts between branches in the two studies showed differing interpretations of events reflecting the process and context factors identified earlier. The role of the leader as an effective participant in preparing the staff for the pending events and as the facilitator of group socialisation, particularly evident within the City study, is a clear indicator of how these difficulties can be managed. Clear expectations of the future were developed through the proximity of the leader to the staff and their issues. In calling for greater leadership at the sub-unit level, however, it is important to consider that the leader usually must also balance the task demands arising from their position. Perhaps this is the paradox of leading a unit in an M&A: there is a demand to deal with ever-increasing task responsibilities while simultaneously creating a new boundary by attuning to the socialisation and identity issues arising from combining two divergent groups.

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1. All names of companies, persons and dates have been altered. The help of the case company and its staff is very gratefully acknowledged.

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