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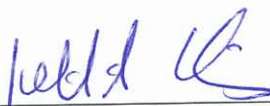
Change Management: Managing the integration process

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1 Change Management: Managing the integration process

Managing large-scale planned change processes, such as merger integrations, involves on the one hand careful planning and organization of the process and on the other hand handling change as it is taking place in practice. This requires structural, procedural and interpersonal skills at the top and middle management levels (Stensaker & Meyer, 2008). Structural skills refer to planning the what, when and how in terms of the process, such as making decisions on the tempo and sequencing of different implementation activities, whom to involve when, and developing communication plans. Procedural skills have to do with managing the change process as it is ongoing and includes securing a fair process, open and truthful communication, and conflict handling. Interpersonal factors refer to managing the interaction between individuals and groups and ensuring that people are treated in a respectful manner during the change process. A merger integration process consists of several stages and while all three types of change management skills are important, the three sets of skills tend to carry different emphasis depending on the stage of the process. The first stage in merger integrations involves planning and organizing the process, and structural skills are then critical. Top management usually plays a key role in the early stage when decisions are made about what parts of the organization to integrate and how to do this. Once the process has been planned, the integration is effectuated throughout the different levels and divisions within the organization. Procedural and interpersonal skills become more important during this stage when divisional and middle management take on an important role as change agents.

This paper presents some of the key challenges of managing an integration process for the purpose of contributing to an ongoing empirical study of the merger between Statoil and Hydro. We focus first on the stage involving planning and organizing where we draw on M&A integration research. The next section deals with divisional and middle management's role in the integration process. In addition to the M&A integration literature we also draw on literature from strategic change implementation, which has recently increased its focus on how the "middle" influences and shapes change results. Sensemaking has been particularly central in this stream of research. We propose suggestions on how to extend current knowledge on middle management's role in implementing change.

2 Planning and organizing the integration process

The first stage of the integration process involves (a) decisions about the integration design, including designing a new and integrated organisation, (b) establishing integration principles, and (c) designing a plan for the actual integration process.

One of the first decisions that need to be made in merger integrations has to do with the integration design (Boye & Meyer, 2008). How closely should the merging organizations be integrated? Integration designs have been characterized on a continuum from autonomy to absorption (Schweiger and Walsh, 1990), reflecting that integration choices range from low to high levels of integration. Whereas a low level of

integration is conceptualized as one in which technical and administrative changes are limited, and where the potential for realizing synergies is relatively small, a high level of integration is a complete structural and cultural merger where the potential for synergies is large. However, the disruption of pre-existing resources and routines also implies that there are substantial costs involved in integration, often leading to a decline in short term performance of the combined entities (Buono and Bowditch, 1989; Haspeslagh and Jemison, 1991; Nahavandi and Malekzadeh, 1988; Pablo, 1994; Zollo and Singh, 2004). Decisions about the integration design should be made on the basis of the strategic dependency and the need to retain identity of the merging organizations (Haspeslagh and Jemison 1991). If the management opts for tight integration, then a *new organisation* has to be designed with decisions on structure, allocation of positions, geographical location of different activities, choices of systems, and cultural implications. Decisions can either be made on new combinations of existing organizational solutions (choosing certain elements from organization A and others from organization B) or a complete redesign of the organization. Similar decisions are also likely to be necessary at more detailed and lower level in the organisation later in the process. Often the initial decisions made at corporate level show differences in terms of their level of precision and detail. This means that some decisions tend to be made at a rather detailed level while others are higher-level and more abstract ideas and decisions that need to be further developed and operationalized.

The M&A management team also often decide on some *integration principles* to guide the process. Integration principles can serve both to guide the processes and as a foundation for decisions about the distribution of positions/activities. The M&A literature indicates that such principles tend to be based on efficiency and/or fairness concerns (Kabanoff, 1991; Mannix, Neal and Northcraft, 1993). In mergers between equals, fairness concerns tend to dominate, particularly early in the integration process (Vaara and Tienari, 2003). Sometimes these two concerns will be in conflict and over time, efficiency concerns are likely to become more salient (Meyer & Stensaker, 2004).

The *integration plan* will typically include information on who is responsible for what, resource allocations, timing and sequencing of events, information, communication and coordination of integration activities, as well as a description of how *benefits* are expected to be *realised*. It is interesting to note that while calculations on benefit realization are often rather specific prior to large-scale change processes, they are viewed as much more difficult to measure and assess once the changes have been set in motion (Haueng, 2004). The normative literature on process planning suggests that decisions about how to organize the process should be made based on careful assessments of the internal context in the organization. Choices such as the pace and leadership style of change is contingent on issues such as: how much time is available, the scope of the changes, examination of what needs to be preserved in the organization, level of diversity in the organization, capability, capacity and readiness for change, and the distribution of power in the organization (Balogun & Hailey, 2008.)

In summary, the M&A literature combined with the literature on implementation of strategic change suggests that the first stage of large-scale change consists of planning and organizing the process. While there is much focus in the M&A literature on these early post-integration issues, there is less focus on how early decisions affect what happens later in the process. **We aim to link planning and organization decisions and activities with later activities and responses to change in order to increase our understanding of the effects early planning and organizing might have on the change process and change management choices and options at a later stage.** This

will require an in-depth description and analyses of the planning and organization of an integration process.

3 Divisional and middle management's role in the integration process

Once the integration process has been organized and planned, change management becomes less of a project planning activity and more of a conflict handling activity, where plans are put into practice and practical challenges appear. Recent literature emphasizes the key role middle management plays in implementing planned change and points to middle management, rather than the traditional focus on top management, as a critical success factor for attaining positive results from change (Balogun, 2003; Huy, 2001; Mantere, 2007; Floyd and Woolridge, 1997). Because of their structural position in the organization, and their role as linking pins between the strategic and the operational level, middle managers become change intermediaries.

3.1 Different change management approaches at middle level

Existing research on change management has identified a number of different change management approaches that can be applied by change agents (such as divisional managers) varying from more directive and top-down approaches to more collaborative and bottom-up approaches (Beer & Nohria, 2002; Huy, 2001; Dunphy and Stace, 1993; Nutt, 1986;1989). It is generally accepted that the best or most efficient way to manage change is highly context-sensitive. Different organizations require different approaches towards managing change. In large organizations, different divisions and departments (perhaps across nations) may require different approaches as well. In a multidivisional context, divisions often maintain considerable autonomy in their choice of approaches to managing change. To make things even more complex, it is also likely that any large-scale change will require a multitude of different approaches (Huy, 2001; Dunphy and Stace, 1993, Beer & Nohria, 2002). Knowledge about different change management approaches and their suitability is therefore essential.

Although the context-sensitive approach to change management is generally preferred above more universal prescriptions, this perspective has been criticized for assuming that managers make rational choices of change management approach based on careful analysis of the change content and context (Stensaker & Langley, 2008). However, much of the descriptive and in-depth change process research suggests that this is not the case. Existing research indicates that division managers tend to base their approach to change management on analyses and perceptions of the situation at hand. For example, Kostova and Roth (2002) studied change in a multinational context and found that change management approach was influenced by the *perceived dependence between the subsidiary and headquarters*. Maritan and Brush's (2003) study of an attempt at knowledge transfer among units of a multidivisional firm also draws attention to *how unit managers' distinct motivations and priorities* may affect implementation strategies chosen. In a study of a large-scale change process in Statoil, three different approaches to managing change at divisional level were found and these could be explained by how *divisional managers and the divisions perceived themselves and their role in the corporation* (Stensaker & Langley, 2009). Divisional managers were found to juggle three concerns: (1) implementing the planned change; (2) maintaining credibility from their superiors (keeping their bosses happy); and (3) securing employee

relations (keeping employees happy). As division managers to different degrees emphasized and attended to these three concerns rather different change management approaches were identified. Interestingly, despite different change management approaches, similar outcomes in terms of the substantive change achieved were observed. However, there were dramatic differences in organizational outcomes such as political outcomes (who gains and who loses); trust in division management, division managements' credibility at corporate level, and the work environment in the division.

These and similar studies suggest that a greater understanding of the factors that influence division managers' choice of implementation approach can generate valuable insights both in terms of understanding the process and predicting potential challenges. Drawing on existing research we will therefore aim to uncover **different approaches to change management and the various factors that can explain division management's choice of change management approach.**

3.2 Middle management activities and roles

In probing how middle managers affect integration results, it can be useful to draw on studies of middle management activities and roles during change. A study of what middle managers do during planned change uncovered four implementation tasks: undertaking personal change; helping others through change; keeping the business going; and implementing change into departments (Balogun, 2003). Other researchers have focused on the roles of middle managers and role expectations (Mantere, 2007). Huy (2001) found that middle managers take on the role of the entrepreneur (coming up with good and practical ideas); the communicator (customizing messages downwards and upwards in the organization); the therapist (taking care of subordinates); and the tightrope artist (balancing change and continuity).

The role of balancing change and continuity has proven to become even more important when organizations pursue a series of changes. Although much of the change literature tends to treat organizational change as a single isolated event in the organization, it is increasingly being reported that most organizations effectuate a number of changes at the same time, and often new changes are initiated before previous ones have been completed (Stensaker, Meyer, Falkenberg, Haueng, 2002). The notion of multiple changes going on in organizations accentuates the need for balancing change and continuity. Research that takes a multiple perspective on change has shown that middle managers may become overwhelmed (rather than play the intermediary role) and spend more time searching for new information about the future rather than attending to subordinates and implementing current change (Stensaker and Meyer, 2007). Both middle managers and employees also risk becoming change fatigue, when exposed to multiple changes. In managing change, both top and middle managers therefore need to keep a balance between change and continuity, and the focus must be on long-term performance. Organizations have *a capacity for change* when they are able to implement multiple changes at minimum cost. This implies a situation of continuous large-scale changes and a long-term perspective. Recent research has begun to identify how some managers think about and approach change management in order to develop sustainable capacity for change and the perspective they describe is dramatically different from current change management perspectives and models (Meyer & Stensaker, 2007). This leads us to expect that alternative change models need to be developed to better reflect and explain complex, multiple change processes in organizations. However, alternative change models are only in their infancy, hence providing substantial opportunities for contributing in this line of thinking. We will

therefore probe if and how different change management approaches are related to outcomes such as (1) “safe and effective operations in the day-to-day business” goal been reached through the merging and integration phases (2) organisational integration in practice (3) capacity for change (4) increased space of action, and (5) increased capacity to act.

3.3 Sensemaking theory as a lens for understanding change management

An increasingly popular theoretical perspective for understanding large-scale planned change is the sensemaking perspective. The sensemaking perspective provides insight into how individuals make sense of ambiguous and novel situations. Gioia and Chittipeddi (1991) studied planned strategic change and defined sensemaking as “*the meaning construction and reconstruction by the involved parties as they attempt to develop a meaningful framework for understanding the nature of the intended strategic change*” (1991: 442). They found that sensemaking processes were evident for managers, lower-level members of the organization, as well as external constituents. All were trying to understand the meaning of the proposed strategic change effort, its effect on them, and their role in it. Hence when strategic change is initiated, sensemaking processes aimed at understanding the why, what and how of change are triggered among all individuals who know about, and are affected by, the change. Change recipients create change and affect change outcomes based on the way in which they interpret and make sense of the planned change (Balogun & Johnson, 2004). Sensemaking allows organizational members to create rational accounts of what, why and how to change, and this enables action (Maitlis, 2005). Sensemaking theory rests on an underlying assumption that reality is socially constructed (Berger & Luckmann, 1967). This means that events, actions, and objects are viewed as subject to multiple meanings and plausible, rather than accurate, accounts are emphasized. Change recipient sensemaking is important as it is their subjective accounts of what is going on that guides their behaviour and response to change.

Middle managers make sense of a corporate change initiative by translating change goals and initiating activities aimed at producing change. Cues that can add structure or knowledge to the new situation (Weick, 1995), such as corporate plans, management’s instructions or information about what other divisions have done, will then become central. Individuals reduce equivocality and ambiguity by seeking the interpretations of others (Harris, 1994; Volkema, Farquhar, & Bergmann, 1996). Commonly shared meanings arise through social interactions (Poole, Gioia, & Gray, 1989). Hence change recipient sensemaking is not only shaped by cues in the environment and individual interpretations and translations, but also by interactions with others who are engaged in interpreting and translating corporate initiatives (Balogun & Johnson, 2004; Drazin et al., 1999). These social interaction patterns affect the accounts that are generated about change and whether the result is consistent or inconsistent actions (Maitlis, 2005). This is why it becomes important for change agents to know how change recipients have made sense of the changes.

Sensegiving can be defined as “*the process of attempting to influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality*” (Gioia & Chittipeddi, 1991: 442). Gioia and Chittipeddi (1991) found that following sensemaking by the CEO, an abstract vision of the changed organization

evolved and was disseminated to the stakeholders and constituents (via sensegiving). Top management tried to affect stakeholders' interpretation by creating instability. This demanded changes in stakeholder cognition and triggered stakeholders' sensemaking. Stakeholders then attempted to negotiate revisions to the proposed vision. Hence top managers, middle managers and change recipients attempt to affect other's sensemaking processes through sensegiving.

Managers attempt to manage meanings and orchestrate cues. Research on sensegiving suggests that top managers attempt to give sense by communicating a vision (Gioia and Chittipeddi, 1991), by using narratives (Snell, 2002) and storytelling (Dunford and Jones, 2000) or by communicating something of value to the recipients (Bartunek et al. 1999). They cannot, however, completely control which cues become important for lower-level managers and employees. Change recipients will, in order to negotiate strategic goals, attempt to communicate back to corporate management their own interpretation or preferences related to a change. Contradictory views can lead to a number of outcomes including the domination of one party, a compromise or negotiated order, conflict, or a complete failure to understand each other (Drazin et al., 1999).

The studies above have shown how sensemaking and sensegiving at all levels in the organization affect organizational change outcomes. Existing research points to different accounts of change due to sensemaking but provides little insight into why middle managers construct such different accounts of change. While the early literature on sensemaking suggest that how sensemaking is inherently tied to identity (Weick, 1995) few researchers have probed just how identity, sensemaking and strategic actions by middle managers are interconnected. Yet, it is clear that middle managers shape strategic processes and outcomes through *who they are* (Johnson, Balogun & Beech, 2009; Rouleau, 2003) and what they see as their main task (Stensaker & Langley, 2009). While middle managers' perceptions of who they are influence their strategic actions and interactions, they themselves can change in the process of implementing strategy. In a study of change agents who were recruited by management to play an active role in organizational restructuring Huisling (2008) found that in trying to change the organization, the change agents themselves experienced radical personal change. In examining different approaches to change management and the various factors that can explain division management's choice of change management approach we will therefore employ focus on **middle management sensemaking and sensegiving specifically through an identity lens**. For instance, will middle managers who have taken part in early project organizations take a different approach towards managing change? Will they look upon themselves and their identity differently from middle managers who have not taken an active part in planning the change process? In addition, what role does the identity of the organization (division or platform) play in middle managers perceptions of their own identity? How do reflections around own identity and role influence the implementation activities they initiate and vice versa – how do the activities and potential success or failure of these influence their identity. These are issues we will focus on in an attempt to further our understanding of the strategic role played by middle managers in change processes.

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