Achieving Successful Organizational Change: the Role of Human Resource Management Practices

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Abstract

Estonian Hansabank privatized the Lietuvos Taupomasis Bank. Hansabank set the ambitious goal of integrating LTB Bank into the Group in a single year. By this time the new Group member was expected to have become profitable. This paper explores possibilities of using human resource management practices in this cross-border acquisition process. Such activities of the Personnel Department as staffing new structure and top management team development were key success factors, which helped to improve the management of the Lithuanian bank and to achieve desired organizational culture.

Introduction

Already more than decade ago mergers and acquisitions became the dominant mode of growth (Adler, 1997). Personnel issues surrounding M&As have been in focus of several studies (Aguilera and Dencker, 2004). HRM has the potential to play an important role in M&A integration, for example, by reinforcing the new HRM system and corporate culture and providing leadership and communication to reduce turnover (ibid). The aim of this paper is to explore possibilities of using human resource management practices in implementation of organizational changes, more precisely, during cross-border acquisition of the bank. Paper starts with overview of change management and human resources management, followed by analyses of case of one Estonian bank, which brought a bank in another country.

Theoretical framework

Change management

Dopson and Neumann (1998) have perceived change as a necessary evil for survival in the context of uncertainty. Organizational change has been seen as an individual-level phenomenon because it occurs only when the majority of individuals change their behavior or attitudes (Whelan-Berry et al., 2003). Multiple-interacting changes in a global environment have led to a highly complex, confusing and unpredictable state. This has shifted the focus of the change process from product innovation and technological change, to behavioral aspects of change and to attitudes about change (Bergquist, 1993).

Usually scholars analyze such features of organizational change as content, type, structure and process. Armenakis and Bedeian (1999) have divided research on organizational change into (1) content research, (2) contextual research, (3) process research and (4) criterion research. Nutt (2003) combines structure and process. The structural research by Nutt (2003) is similar to content research (Armenakis and Bedeian, 1999), and process research was presented in both typologies.

Although the type of change and the process of change are both important building blocks in any model for dealing with change, there is also a third crucial factor – a readiness to change in the particular organization. The readiness factors act like a bridge between identifying what needs to happen and the activity of implementing the change. Struckman and Yammarino (2003) combine types of change with the readiness to change, but they do not take process into account. Therefore Alas (2007) has composed the model connecting types of changes, process of change, the readiness to change and the institutional environment as the context of change.

One important readiness factor is leadership. The top management team (TMT) has impact on post acquisition performance of the company and TMT effectively influences the organizational culture (Kiessling and Harvey, 2006). Within the same firm, individuals may have many different reactions to being acquired (Empson, 1994).

Buono and Bowditch (1989) argue that 'a merger or acquisition is ultimately a human process.

Therefore, involvement of the HRM function in M&A process is a matter of a humanitarian concern for absorbing grief among those people who were acquired (Hunt and Downing, 1990).

Human resources management

The term human resource management (HRM) refers to design and applications of formal system in an organization to ensure effective and efficient use of human talent for achieving goals of organization (Mathis and Jackson, 2002).

The concept of (HRM) gained importance when it became clear, that strategic decisions are more and more related to human resource considerations (Daft, 2006) and human resource management has impact on an organization´s strategic capability (Fombrun et al., 1984; Wright et al., 1994).

The Michigan model of HRM emphasizes that people are resource as any other resource in organizations and the utilization of this resource must be closely linked with the strategic objectives of the company (Fombrun et al., 1984). According to the Harvard model developers, people are the most valuable, specific, and critical resource in an organization. Both models connect human resources with business strategy (Beer et al., 1985).

Authors of this article define HRM as set of practices in organization to ensure effective and efficient use of human capital for achieving goals of organization.

Thus, managing the human resource has become one of the critical success factors in most organisations. Both the existence of proper personnel and the ways how people are managed is the basis for achieving the competitive advantage. In current study authors analyze how HRM practices could be used in merger.

Hansabank privatizes Lithuanian bank

Hansabank started operations on 10 January 1992. In 1996 Hansabank shocked the Estonian public by acquiring the 8th largest bank in Latvia, Deutsche Lettische Bank (DLB). In June 1999 two Estonian banks – Hansabank (1200 employees) and Hoiupank (2000 employees) were merged. On 17 October 1998, Swedbank from Sweden acquired shares in Hansabank to the amount of € 93.9 million, which was the biggest foreign investment in the Estonian economy.

By the end of 1999, when preparations to expand activities into Lithuania had already been under discussion for a year and a half, Hansabank finally received a banking operation license from the Bank of Lithuania. Hansabank became the first bank to offer banking services in all three Baltic States.

The new bank was named Hansabank. Hansabank employed a Lithuanian citizen, whose first task was to form a team to start the new bank from zero. He was assisted by a Hansabank employee from Estonia who helped him to implement the "Hansa Best Practice" strategy and carry out major recruitment campaigns. Hansabank was founded in July 1999 and by the end of 2000 it had achieved 3% market share of savings and loans. The bank was integrated into the internal communication system of Hansabank Group and the corporate culture of its employees was comparable to that of Hansabank. The majority of Hansabank employees were below 30 years of age and almost 100% of them either had higher education or were pursuing their degree. Hansabank was considered to be an Estonian bank.

To become equally strong in all three Baltic countries, on 1 June 2001 Hansabank privatized the Lithuanian Savings Bank (Lietuvos Taupomasis Bank, LTB). Hansabank set the ambitious goal of integrating LTB Bank into the Group in a single year. By this time the new Group member was expected to have become profitable.

Although the last management of LTB had made significant achievements in reorganizing the bank into a modern financial organization, the bank was in losses. The management practices in LTB were bureaucratic. There were stories about documents being considered valid only if they had seven signatures and were sealed. All decisions were made by the board of the bank and therefore it took weeks to reach one. All tasks had to be passed on via the hierarchical structure. If somebody needed to see a manager, it was often necessary to wait for hours in the presence of the secretary, behind the manager's closed office door.

The bank had established its own *code of practice*, which guaranteed some managers and employees more rights than others. The office of the chairman of the board was a three-room apartment furnished with antique furniture including a bathroom. In the opinion of the new owners this office might have accommodated at least three small families. The offices of ordinary personnel had not been refurbished for years, the ventilation was insufficient and air-conditioners were non-existent. The offices of the management, on the other hand, looked much better and were sufficiently equipped. The corridors of the offices were painted in dark colors and the offices sealed with massive dark wooden doors.

Despite the fact that LTB had been prepared for privatization for years and had been restructured several times, the regular distribution of information internally was uncommon. People had to put the picture together on their own from bits and pieces they could gather. Word-of-mouth was the most common means for the dissemination of information used in the bank. The channels of internal communication included: faxes for sending out managerial decisions and other official documentation, an internal postal system and an unofficial intranet page. The intranet was only accessible to head office employees and mainly used for exchanging personal messages like purchase, sale or exchange notices, birthday congratulations and photos of events. There was only one person who could feed in such information. E-mail was accessible only in the headquarters and in the head offices of some regions, but it was practically unused and not considered an official channel of communication.

When the Board of Hansabank Group decided to merge Hansabank and LTB, they decided to use the merger of Hansabank and Hoiupank (Savings Bank) in Estonia in 1998 as an example to follow.

The local Hansabank consisting of 100 people did not have sufficient resources to merge the two banks, therefore a new team of managers, trainers, communicators and personnel staff was formed and sent to Lithuania to carry out the process of integration. The time this team was expected to be on site in Lithuania was 3-4 months. This “Estonian task force” consisting of specialists and managers was given training prior to their mission. The training sessions had to shape the attitudes of the integration team so that they would not feel like integrators, but part of a cooperative international team where the majority of the team members were Lithuanian. The session also focused on the topic of cultural differences — how to start communicating with the Lithuanians, which ice-breaking topics are the best and safest, etc. For instance, raising the topic of family and children, and showing a sincere interest in the private life of the communication partner can be a very good technique for bringing people together. It was important to approach counterparts from the human point of view rather than the rational.

Managers learned to differentiate between active and passive resistance, mitigate the straightforward approach of Estonian business culture, double-check that the tasks they had to implement had been understood and assess the importance of recognition and feedback. It was considered crucial to use face-to-face communication in such a complicated situation involving different cultures. In order to integrate LTB, Hansabank created executive committees in key areas such as: IT, human resources, public relations and communication, retail banking, risk management, leasing, factoring and e-banking.

One critical area in preliminary integration plan was the development of Lithuanian managers in such a way that they would be able to implement the Hansabank Group culture in the new merged bank. Therefore, we concentrate how to support the management of change by using human resource management. At the same time also internal communication was needed to inform people about desired culture. Human resource management and internal communication functions worked as the source and transmitter of information. The Personnel Department as the source of information identified the problem and the Internal Communication Department started to look for and offer solutions. For instance, the Personnel Department found that the Lithuanian employees felt uncomfortable and the Internal Communication Department organized an article by a psychologist for the internal newspaper about the reaction of people to change. Similarly, the Personnel Department often discovered a need and the communication department offered ways to satisfy this need. For instance, the Personnel Department wanted to inform people how job vacancies were filled. The Internal Communication Department issued a special newsletter which gave an overview of all the vacancies and the terms and conditions for competition for these positions.

The task was to introduce the Lithuanians to the personnel- and management culture of the Estonian organization and the practice of job evaluation interviews and competency patterns with the aim of implementing its management culture at LTB. This was not easy because the differences between the cultures of Hansabank and LTB were substantial. On the other hand it was an advantage that Hansabank offered a positive existing working culture and the Lithuanians could see that it really worked.

The creation of a new structure

In order to achieve new culture, new structure was created and all personnel had to apply for the new positions. The requirements set for the employees from both Hansabank and LTB were the same. The fair selection of employees was monitored by a committee made up of representatives from both banks. This committee approved the decisions and checked that the candidates from both banks had been considered, scrutinized the reasons for one person being selected and ensured that there had not been too much politics involved. They had to fill in a selection explanation form about each of the selections made.

The top manager of the Lithuanian bank was appointed by Estonians. He then selected the members of the executive board. The remaining of positions within the bank were available through open competition supervised by the “fair selection committee”. At first, this committee was chaired by an Estonian, but later she was replaced by the head of the local Personnel Department.

The management of the Lithuanian bank was put together on the basis of LTB and Hansabank. Most positions were given to the employees of Hansabank. To be politically correct, a few positions were given to the younger and achievement oriented LTB managers.

The new management was seconded by the integration team in all fields of activity. Every member of the Board had a “shadow” in the person of an integration team member. In reality it was often so that at meetings, the inner circle at the table consisted of Lithuanians, at their back there was another circle of Estonian “shadows” or consultants from the integration team. Prior to meetings, the Lithuanian manager discussed all the issues on the agenda with his/her “shadow”. At the meeting Lithuanian people discussed the matters among themselves, but the consultants were constantly alert in order to assist with advice should it be necessary. The entire process of training the management and Personnel Department took place in the form of a consultancy.

Developments in the field of human resources management

According to the integration plan, the personnel manager had to be found from Lithuania. The Estonian human resources team also had an essential role to play because it was their role to join the two teams, select the best candidates and be fair in this process. There were no suitable persons for the position of personnel manager in either bank. We were looking for a person with experience in and knowledge of contemporary human resource management. Therefore it was necessary to send someone from Tallinn to handle the situation. The emergency human resource management team consisted of four people and was sent to Lithuania for the whole summer. This task force consisted of the personnel manager, personnel development manager, a personnel development specialist and a personnel information technology specialist.

The first thing to do was to fill the position of personnel manager. The new manager was a personnel consultant from a consultancy company. At the beginning the other employees of the Personnel Department stayed in their positions.

A similar use of “shadows” practiced with the management was also used with personnel. The new personnel manager also had a “shadow” from among the integration team. This practice could be to some extent compared to that of mentoring, although in this case the system was much more delicate. Besides instructing the Lithuanian people it also aimed at making them feel that they were actually managing the whole system. This was one reason why the Estonian Hansabank integration team only had to be present in Lithuania for some months, not to undermine the authority of the local management in the eyes of the Lithuanian employees.

On the first day, the four personnel experts in the integration team had a meeting with the employees of the local Personnel Department. It appeared at the meeting that none of the Lithuanians spoke English and therefore all the material that had been prepared in English had to be presented in Russian. The Estonians had already forgotten the Russian language they had once learned because the internal working language at Hansabank was English.

The aim of the personnel experts was to tell the Lithuanian Personnel Department that they had come to assist and have a look at how the integration could be carried out.

The second step was to go bowling together with the local personnel employees in order to get acquainted. Unfortunately, the local personnel employees had old Soviet attitudes and therefore entrusting them with key positions was out of the question. On the other hand, the integration team did not want to replace the whole department. The employees had to be motivated to adopt new ways of thinking and working. Estonians wrote an article into the internal newspaper of the bank, edited by internal communication people. In this article they highlighted the work of the local Personnel Department, praised them and encouraged them to try even more.

The new personnel manager, who had been recruited as part of the integration process, employed a new training manager and emphasized the training of his employees. All employees in the personnel department were engaged in the process of recruiting new employees, which turned out to be a new experience for them and therefore called for special training. The training session was not carried out by Estonians, but subcontracted to a Lithuanian company. This was done by the new Lithuanian personnel manager who found the right partners in the market. He also introduced a new vision of personnel management and managed to make old-fashioned people learn new things and see things in the new light. In addition, the Hansabank competency model was introduced.

There were a lot of meetings for employees aimed at introducing the values and goals of the new bank, and highlight integrity and trust. The oak doors of the Lithuanian managers were replaced with glass doors.

Conclusion

Current paper illustrates human resource management and leadership during merger process. The biggest Estonian bank, Hansabank, purchased the large Lithuanian bank, LTB, and started to integrate it into the Hansabank Group. Transformational change was required in LTB. The main focus of the paper was on the changes made to the organizational culture of LTB. The activities of the Personnel Department were key success factors, which helped to improve the management of the Lithuanian bank and to achieve desired organizational culture.

The acceptance of change and joining the actual process of change starts from within the people themselves. It is possible to learn how to cope with change and the likelihood of success is relatively greater if people realize the need for flexibility and have the ability to act fast. Nothing changes for the better until people have a positive attitude. Therefore, in any process of change it is essential to know what is going on in people's minds and what emotions they are going through. Successful management of change is based on taking action according to uniform principles — everyone involved moves in the same direction. . Internal communication can assist managers with setting up a uniform plan of communication and the ability to monitor the process from distance. The different phases of change require different approaches and emphasis. If the people involved in the process of change are able to contribute to the process they will accept the new situation more easily. In any case it is better to have the necessary information and direction instead of suggestions and make the process as transparent as possible.

Due to the existence of Hansabank, the Lithuanians had a stronger trust in the process of integration at LTB. The corporate culture of Hansabank was accepted by employees of LTB much easily and more completely because it was introduced and spread by the Lithuanians themselves who had come from Hansabank.

To conclude, such activities of the Personnel Department as staffing new structure and top management team development were key success factors, which helped to improve the management of the Lithuanian bank and to achieve desired organizational culture.

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