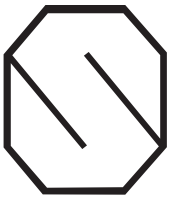

The Integration Journey: An Attention-Based View of the Merger and Acquisition Integration Process

Jisun Yu, Rhonda M. Engleman and Andrew H. Van de Ven

Abstract

This paper reports findings from an eight-year ethnographic study of the integration process in a large healthcare system formed in a 1994 merger. We examine the post-merger integration process by analyzing the relative amounts of time that senior managers in one unit of this organization spent discussing various integration topics and issues in their bi-weekly meetings from 1995 to 2002. We also describe the different patterns observed when managers addressed topics in their meetings related to internal unit integration versus integration with other parts of the organization. Finally, we identify a vicious cycle of repeated conflicts in how organizational members made sense of issues that emerged during the post-merger integration journey.

Keywords: mergers and acquisitions, integration process, managerial attention

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Scholars often note the importance of the post-M&A integration process in M&A performance (Bastien 2000; Birkinshaw et al. 2000; Graebner 2004; Greenwood et al. 1994; Jemison and Sitkin 1986; Larsson and Lubatkin 2001; Nahavandi and Malekzadeh 1988; Vaara 2003). Researchers have called for more longitudinal process studies of post-merger integration to explore how process dynamics influence M&A outcomes (Jemison and Sitkin 1986; Ramaswamy 1997). A process perspective in M&A research would consider 'how aspects of the acquisition decision making and integration processes can affect the final outcome' (Haspeslagh and Jemison 1991: 306).

Despite calls for more longitudinal process research on post-merger integration, few studies have examined the integration process in real time. The majority of longitudinal studies of post-merger integration employ surveys or interviews at a few points in time (e.g. Birkinshaw et al. 2000; Datta 1991; Greenwood et al. 1994), laboratory experiments (e.g. Pablo 1994; Weber and Camerer 2003), or archival searches (e.g. Hitt et al. 1998). Research employing real-time data collection within the organization for a long period of time after a merger is completed is rare.

The current study is largely based on our observations over eight years of bi-weekly senior management meetings in a clinic group following the creation of a large healthcare system by the merger of 15 hospitals, 50 primary care clinics, and one large health plan covering over a million people. We

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particularly focus on understanding the sequence of events and issues to which senior managers paid attention during the integration process and identifying patterns in those events and issues. Our findings show a delay in movement toward realizing the stated purpose of organizational merger — improving patient care. Over eight years following the merger, senior managers of our focal unit attended primarily to integration within their unit, with little attention to linking that unit with the larger organization. We identified an underlying mechanism of the delayed integration process, a vicious cycle of escalating conflict and system fragmentation in response to three recurrent issues.

Prior Research on the Post-merger Integration Process

In their classic study of mergers and acquisitions, Mace and Montgomery (1962: 230) emphasized that 'The value to be derived from an acquisition depends largely upon the skill with which the administrative problems of integration are handled.' Larsson and Finkelstein (1999) identified organizational integration as the single most important factor explaining post-acquisition synergy realization. A growing body of research has stressed the importance of actions taken after an M&A deal is closed, examining organizational integration from a variety of perspectives.

Studies with a human resource orientation have focused on organizational members' roles and reactions to organizational changes following a merger. Various human behavior problems in the integration process have been identified such as communication breakdowns, 'we–they' communication dynamics, and decreased commitment (Buono and Bowditch 1989; Marks and Mirvis 1997; Napier 1989; Shin and Denisi 2004). Addressing those problems, scholars have investigated the role of managers in acquired companies (Graebner 2004) and of the professional workforce (Greenwood et al. 1994). Birkinshaw et al. (2000) argued that task integration can be achieved only when built on the success of the human integration.

Another group of studies has noted the role of organizational culture in the post-merger integration process. Acculturation has been identified as a critical success factor for the post-merger integration (Larsson and Lubatkin 2001; Nahavandi and Malekzadeh 1988). For example, Cartwright and Cooper (1993) argued that the pre-combination cultures of the partnering organizations played a major role in determining M&A outcomes. Pablo (1994) also found that cultural factors influence managers' decision models about their post-merger integration policy. Through laboratory experiments, Weber and Camerer (2003) demonstrated how difficult it is to merge cultures of two different companies once they are established.

Yet another body of research on the post-merger integration process has taken a social construction perspective. While the other two groups of studies tend to provide 'normative' implications, studies within this group describe post-merger integration as a socially constructed process (Vaara 2003). Examining post-merger decision-making, Vaara (2003) showed that the integration process does not always unfold in a rational way. Managers

continuously enact their reality based on their previous backgrounds and experiences, their roles, and the relationships between merged companies. In the process of this enactment, organizational cultures and identities are (re)built (Vaara et al. 2003), and success and failure of the integration are (re)framed (Vaara 2002).

Research on M&A from these perspectives demonstrates the importance of the post-merger integration process, particularly in terms of surmounting the hurdles of culture clashes, communication barriers, and we–they orientations between organizational parties in an M&A. These studies also emphasize the critical roles that organizational managers play in paying attention to these hurdles and in socially constructing a new reality for their new combined organizations. The current study takes an attention-based perspective, particularly drawing upon the structural view of attention and organizational sensemaking. Our approach is closely related to the other views on M&A integration discussed here, yet it provides a distinctive lens to examine it.

Our eight-year real-time study of the post-merger integration process provides a unique opportunity to extend the literature by examining a number of important questions related to management attention that previous studies were not able to examine. In particular, our attendance and recording of bi-weekly meetings of senior manager over eight years enables us to address the following key questions about the integration process. How do managers allocate their attention in the post-merger integration process? What kinds of events and issues do managers attend to in their integration journey, when, and under what conditions? How do managerial attention patterns affect how the post-merger integration process unfolds over time?

We know of no M&A research that has examined these questions in real time as the integration process unfolds. Lacking empirical evidence of these questions often forces researchers to assume particular managerial behaviors. For example, Hitt et al. (1990) theorized that there is a tradeoff between growth by acquisition and managerial commitment to innovation, arguing that the amount of time and energy absorbed by the acquisition process will replace the efforts to innovate. But lacking data on how managers actually allocate their time and energy in the post-merger integration process, such discussions of tradeoffs remain speculative.

Second, our continuous observations of senior management activities over a period of eight years provide an opportunity to understand the sequence of events and issues in the unfolding M&A integration process and to identify patterns in those events and issues. Studying a sequence of events and their patterns is important because it helps us understand *how and why* particular issues and problems arise during the integration process. Many current M&A researchers, particularly from the first two groups reviewed above, take a variance approach to studying the integration process, conceptualizing 'integration' as a discrete variable (e.g. Datta 1991; Larsson and Finkelstein 1999; Pablo 1994). The variance approach effectively answers the *what* questions, but does not provide insights into the *how and why* questions that Poole et al. (2000) argued were critical to developing a process theory of organizations.

The following section introduces the theoretical background on the attention-based view guiding this integration process study.

Attention-Based View of the M&A Integration Process

M&A scholars have discussed the relationship between what managers attend to in the post-merger integration process and the outcomes of a merger. For example, DiGeorgio (2001) argues that top management attention to integration issues is the key to success in the post-merger integration process. Larsson and Finkelstein (1999) note that lack of attention to integration issues may have serious repercussions for merger success. In an empirical example of the importance of attention, Hakanson (1995) found that attention to including the research and development (R&D) units in the post-merger integration process affected the sharing, transfer, and synergistic exploitation of technical capabilities across companies in international mergers. When asked about the lessons they learned following their own post-merger integration process, participants in a study by Jeris et al. (2002) noted that more attention should have been devoted to transition plans and transition teams at the business unit level and to earlier resolution of systems integration issues. In their study of a hospital merger, Shield et al. (2002) conclude that lack of attention to human resource practices impeded the merger's success.

Examples such as these attest to the perceived importance of managerial attention in the post-merger integration process. To understand how managerial attention affects the merger integration process, one must examine what issues managers attend to over time in the integration process, the factors influencing patterns of attention, and the impact of attention on integration process outcomes.

Although individuals differ greatly, most people have very limited spans of attention. According to Simon (1947), limited individual attention capacity combined with incomplete knowledge of action alternatives and their consequences results in bounded individual rationality. Organizations provide attention-directing stimuli that channel the behavior of boundedly rational individuals. Organizations establish divisions of labor, systems of authority, channels of communication, and other structures that direct members' attention to selected aspects of the organizational environment to the exclusion of other aspects.

Ocasio (1997) builds upon and extends Simon's work in an 'attention-based view of the firm', arguing that firm behavior is the result of how firms channel and distribute the attention of decision-makers. He defines organizational attention as:

> 'the noticing, encoding, interpreting, and focusing of time and effort by organizational decision-makers on both (a) issues: the available repertoire of categories for making sense of the environment ... and (b) answers: the available repertoire of action alternatives.' (Ocasio 1997: 189)

Ocasio's (1997) attention-based view of the firm is based on three interrelated premises. First, what decision-makers do depends on the issues

and answers upon which they focus their attention. Second, the issues and answers decision-makers focus upon, and what they do, depend on their situation. Individual decision-makers vary their focus of attention depending on the characteristics of the situation in which they find themselves. And third, the particular situation decision-makers find themselves in, and how they attend to it, depends on the structural allocation of attention. The attention of decision-makers to selected issues depends on how the organization regulates and controls the distribution and allocation of issues, answers, and decision-makers into specific activities, communications, and procedures. In other words, organizations establish structures that influence what issues come to members' attention, the options available to them to act on these issues, and ultimately the actions they take. According to this view, organizational structures are a primary force in directing managers' attention in the post-merger integration process, affecting the issues and answers they focus on and the actions they take in their integration journey.

The structural view of attention explains how organizational structures affect the issues that gain members' attention. The organizational sense-making perspective provides another view on attention, describing the factors that influence how organizational members interpret the issues that gain their attention and how these interpretations affect subsequent attention. According to Weick (1993: 635), 'The basic idea of sensemaking is that reality is an ongoing accomplishment that emerges from efforts to create order and make retrospective sense of what occurs.' Weick (1995a: 460) describes sense-making as the process by which individuals compare cues extracted from the present with their mental models based on past experiences. Events that do not match the individual's mental model produce cognitive dissonance (i.e. gaps between experience and explanation) and serve as cues that trigger sensemaking. In the sensemaking process, individuals attempt to explain a surprising or confusing event by sifting back through their prior experiences for a plausible explanation of what they now face and a plausible course of action based on what has worked in similar circumstances. Weick (2001) describes how this process of fitting surprising or confusing experiences into one's established mental model can lead to resistance to change in the sensemaking process:

> 'Once a sense of the situation begins to develop, that sense can be terribly seductive and can resist updating and revision. The feeling of relief one gets the moment there is some idea of what might be happening makes it that much harder to remain attentive and willing to alter one's sense of what is happening and one's own position in that altered scenario.' (Weick 2001: 460)

Sensemaking is a social construction process (Berger and Luckmann 1966). Individuals interpret and explain the cues that gain their attention, and these interpretations and explanations become the reality that individuals face and use to form the basis of their future actions. Weick (1995b) argues that in the process of making sense, individuals often enact a world that affirms their currently held mental models. Individuals store beliefs in their mental models and act as if these beliefs are reality, thus eliciting behavior from others

consistent with these beliefs. The enactment process can serve as a self-fulfilling prophecy to the extent that others react to a person's behavior based on the expectations projected from an individual. The actions of others serve as inputs into subsequent cycles of sensemaking. Through this process, individuals not only selectively perceive, but also directly influence the state of their environments by acting in ways consistent with their mental models and eliciting reinforcing behavior from others (Scott 2003).

The sensemaking view suggests that individuals and groups participating in the post-merger integration journey attend to surprising or confusing stimuli, triggering the sensemaking process and leading organizational members to further enact the integration contexts they experience through their interactions with others.

Together, these two perspectives on attention form the theoretical foundation of our analytical approach in this study. The structural view of attention highlights the importance of organizational structures in directing member attention to specific issues and actions. The sensemaking view emphasizes the role of mental models based on past experiences in interpreting the cues that gain organizational members' attention. We draw upon each of these perspectives in this study of the integration process. We identify patterns in the topics and issues that captured the attention of managers in our focal organization in the post-merger integration process and examine the organizational structures underlying these patterns. We also analyze how managers made sense of these topics and issues over time and how their sensemaking processes affected the course of this organization's integration process and outcomes observed.

Longitudinal Research Methods

The Midwestern Healthcare System[1] was established in July 1994 through the merger of Health Systems Corporation and Midwest Health Plan. Health Systems Corporation contributed hospitals, clinics, nursing homes, a home health agency, and other healthcare services, while Health Plan contributed health insurance products and relationships with physician groups.

Our focal unit in this study is the Midwest Medical Group (MMG). The MMG was founded following the 1994 merger by combining into one medical group the 340 employed physicians working in 20 clinics previously owned by individual Health Systems Corporation hospitals. The MMG grew rapidly during its first two years, acquiring 30 additional clinics in strategic locations across Midwestern's geographic market. By mid-1996, the MMG shifted from growth through acquisition to integration of the group's now 50 clinics with 450 physicians and over 3000 employees.

Midwestern executives consolidated MMG management to improve the cost and quality of primary care services provided by the system through concentrating managerial expertise. Midwestern executives charged the MMG management team with integrating their previously separate physician practices and clinics into a single medical group. Midwestern system

executives also expected the MMG management team to support Midwestern's goal of providing 'seamless delivery of care to the patients we serve from cradle to grave' by linking the MMG's functions with those of other Midwestern system units.

Longitudinal Data Collection

In 1994, our research team negotiated in-depth access to conduct a real-time ethnographic study of the integration process within the MMG and between the MMG and the Midwestern system. Research team members attended and recorded a total of 147 MMG senior management team meetings, representing 241 hours of observation over the eight-year period from 1995 to 2002. The meeting discussions were recorded in a verbatim format, noting the speaker, what was said, and for how long.

We observed three types of MMG management meetings: (1) 110 meetings from 4/13/95 to 1/15/02 of the senior management group, consisting of the MMG executives, vice presidents, and directors responsible for overall managerial and strategic issues, (2) 15 meetings from 7/14/98 to 5/16/00 of approximately 11 managers responsible for administrative oversight for districts of three to seven clinics each, and (3) 22 meetings from 2/10/98 to 11/28/00 of approximately 11 physicians responsible for patient care oversight in their districts. We found significant differences in topics discussed between these groups. Consequently, our analysis focused on the MMG senior management meetings. We used meeting proceedings from the other two groups to supplement our qualitative analysis, along with 1995 meetings in which time allocations were not recorded, planning retreats, monthly interviews with MMG senior managers, semi-annual interviews with Midwestern executives, and annual clinic site visits.

Data Analysis

Attention is defined as an ability to focus and maintain interest in a given task or idea while managing distractions (from the University of Alberta's *Cognitive Science Dictionary*). We adopt this definition as it applies to the time spent discussing various topics in MMG senior management meetings. We analyze and present our data in two different ways. First, we analyze time spent on various topics and time allocation patterns in the MMG senior management meetings across the eight years of this study. Second, we qualitatively analyze our data to interpret the identified patterns and distinguish generative mechanisms of those patterns.

Researchers have struggled in measuring attention, often relying upon indirect proxies of managerial attention such as shareholder letters, annual reports, or other organizational records (e.g. D'Aveni and Macmillan 1990). These indirect methods are criticized for reflecting self-serving and retrospective reporting biases (Barr 1998; Clapham and Schwenk 1991; Osborne et al. 2001). We avoided these problems by measuring attention based on direct observations. While researchers' observations may also contain biases,

in our study, the researchers did not select the meeting agendas, determine the duration of meetings, or participate in the dialog. The researchers adopted an ethnographic role, observing and recording the discourse as it occurred in real time.

We found through our periodic interviews that MMG senior managers paid attention to many issues not discussed in their meetings, such as individual work initiatives, personal influence, and hallway gossip. However, we observed that when an MMG initiative required collective attention, approval, or implementation — as is often required of organizational changes — the initiative surfaced in senior management meetings. Meeting time is a finite resource; spending time on one issue implies not spending time on another. Therefore, we regard the topics discussed in MMG senior management meetings as valid indicators of their collective attention in the integration process.

In meetings, senior managers discussed many issues and topics. To prepare the meeting data for a quantitative analysis of time allocation, we followed four steps. First, we transformed the meeting notes from a dialog format into a summary table outlining the issues discussed, decisions made, and amount of time spent discussing each issue in each meeting.

Second, we developed a list of topics by content and classified the issues discussed into categories of approximately equal generality or specificity. We identified seven major meeting topics: (1) culture — building and reinforcing a common MMG culture, (2) structure — operationalizing various administrative functions, (3) leadership and strategy — MMG's future direction and management team changes, (4) financial performance — monitoring and improving MMG financial performance, (5) Midwestern system — relations between the MMG and the Midwestern system, (6) external relations — relations with external stakeholders, and (7) patient care — patient care oversight and improvement.[2]

Third, we coded issues discussed in each meeting into these seven core topics and summed the minutes spent discussing each topic. We generated graphs from these data to identify temporal patterns of attention within and across the meetings.

Finally, because the MMG was responsible for both integration within the MMG and integration with other Midwestern units, we examined the relative amounts of time spent on internal MMG integration issues versus external integration between the MMG and other Midwestern units. We developed composite variables by classifying discussions of topics into internal and external categories. Internal topics were defined as those that were explicitly planned as necessary components of an overall goal for MMG integration by its managers. These topics included issues usually within the responsible domain and control of the MMG managers. Topics dealing with MMG structure, patient care, culture, MMG strategy, and financial performance typically reflected the characteristics of internal topics defined here. In contrast, external topics were defined as those issues related to external factors or events beyond the direct control of MMG managers. Topics such as system-level policies and structures, external environmental events affecting the system, and system-imposed changes in MMG leadership and performance often reflected external characteristics as defined here.

The meeting proceedings were rich and multidimensional with discussion embracing multiple topics. To accommodate this complexity, we coded topics into categories based upon a careful reading of the surrounding text. Our qualitative analysis indicated that some issues dealing with MMG strategy, leadership, or financial performance reflected both internal and external components. Since these discussions were too complex to clearly classify, we excluded these discussions in the construction of internal and external integration graphs discussed below. The amount of MMG top management meeting time excluded in this analysis was negligible (149 of 10,879 minutes, or 1.3% of total meeting time).

We examined the results of our analyses of attention topics and attention to internal versus external integration issues to identify patterns. To interpret the identified patterns and identify the generative mechanisms driving these patterns, we conducted a more fine-grained qualitative analysis of the meeting minutes and other qualitative data gathered. We reviewed the qualitative data to identify critical events that captured MMG and Midwestern leaders' attention in their integration process, the organizational context surrounding these events, the related organizational structures channeling managerial attention to these events, managerial sensemaking of these events, and actions taken in response to these events.

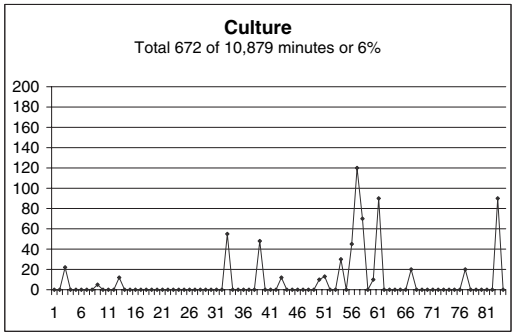
Research Findings

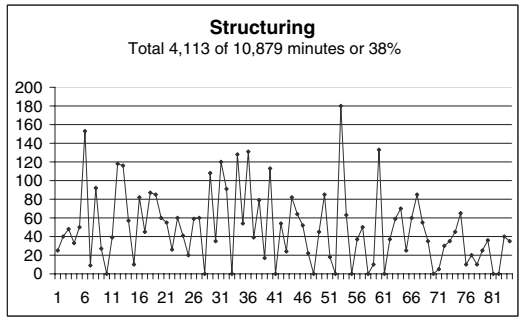
The results will be presented by first showing the amount of time MMG managers spent discussing various topics in their management meetings, and the relative time spent on internal versus external integration issues and patterns in managers' allocation of time to these issues. These quantitative findings provide the empirical context for addressing qualitative questions about how the integration process unfolded — the organizational structures underlying patterns of attention observed, the critical events capturing management attention, the organizational context, managerial sensemaking of these events, and actions taken in response to these events.

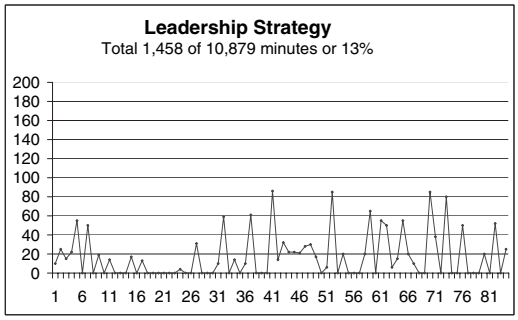
Time Allocation to Topics

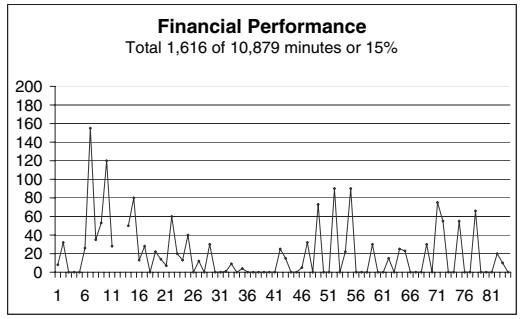
Figure 1 summarizes the amount of time MMG senior managers spent discussing each of the seven major topics in their meetings during the course of this eight-year study. The horizontal axis represents the number and dates of meetings observed over time.

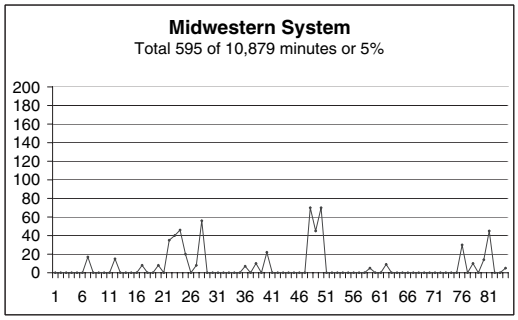
Over the 10,789 meeting minutes analyzed, MMG managers spent the largest proportion of their meeting time discussing structuring issues (38%), followed by patient care (17%), financial performance (15%), and leadership and strategy (13%). During the eight-year study, the MMG management team spent relatively little time discussing organizational culture (6%), issues related to other Midwestern system units (5%), and topics related to MMG's external environment (6%). The graphs show significant variation over time in the allocation of attention to these topics.

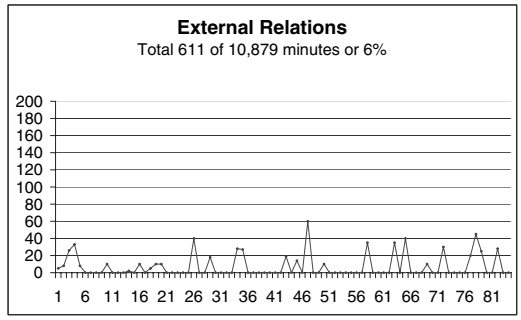












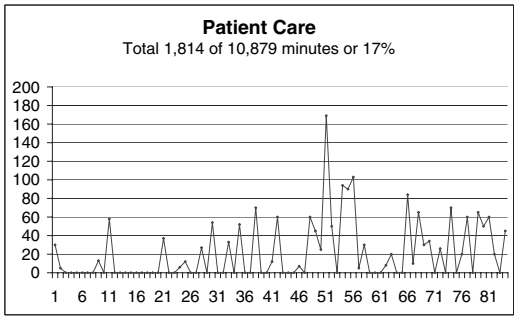


Figure 1. Time Allocated to Topics in MMG Senior Management Meeetings

**Figure 1 also shows that the MMG senior management team focused the majority (66%) of its meeting time on administrative issues (structuring, financial performance, and leadership strategy combined), and only 17% on patient care, the MMG's core function. In fact, patient care did not surface in MMG management meetings as a regular topic of discussion until five years after the merger. Even when the MMG management team did focus more regularly on patient care, the percentage of time spent on this topic was substantially less than that spent on administrative structures. This finding indicates that five to six years passed after the merger before the MMG management team began to pay consistent attention to the MMG's stated purpose of improving patient care.

The graphs in Figure 1 also illustrate the relative proportions of meeting time that the management team allocated to internal versus external integration issues. MMG senior managers devoted the vast majority of their time to internal integration within the MMG. Over the eight years following the Midwestern merger, the MMG senior managers spent only 5% of their meeting time discussing issues related to the Midwestern system and 6% of their time discussing external environment issues. These findings demonstrate that the MMG management team focused on integration within the MMG, paying far less attention to linking the MMG with other Midwestern units and the environment. We elaborate on this finding later in this section.

Patterns of Attention to Internal and External Integration Issues

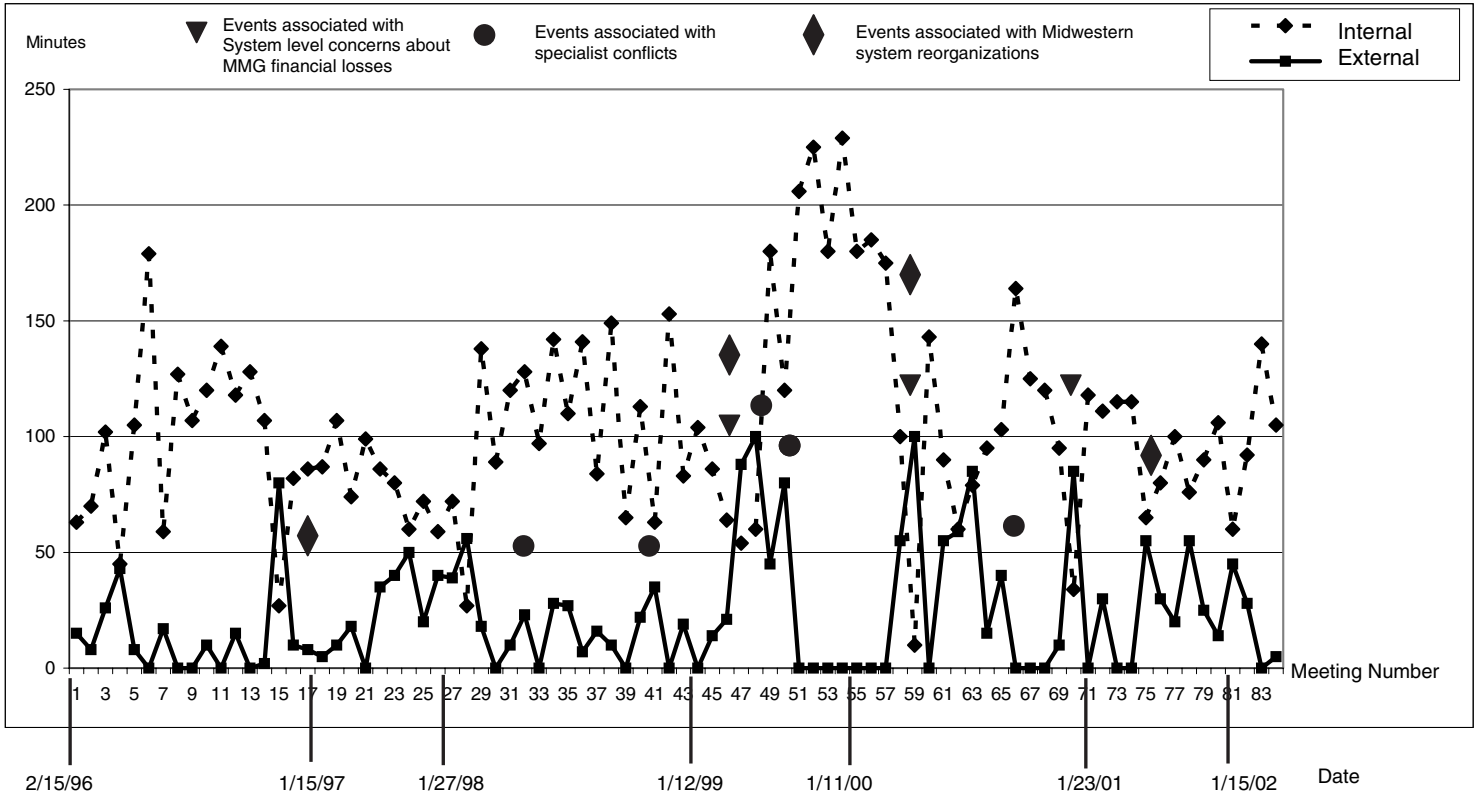
Different patterns of attention were observed when MMG managers discussed internal versus external topics. Figure 2 displays the relative time that MMG senior managers focused on internal MMG topics (about 82% of total time) and external topics (about 18%) over the eight years. Although the MMG management team spent far more time on internal topics than external topics, the occurrence of external issues and events repeatedly disrupted MMG management's attention to managing its internal integration process.

Internal Integration Topics Pattern: Rational Planning Model

MMG senior management attention to internal integration topics typically reflected a rational planning process, beginning with problem recognition, solution development, implementation, and periodic adjustment. Discussions dealing with MMG structure, patient care, strategic planning, financial performance, and cultural change initiatives typically followed this rational planning model. The MMG management team identified needs for improvement, set goals, developed plans to achieve those goals, implemented their plans, periodically re-evaluated performance, and made adjustments as needed to achieve their objectives.

For example, one internal issue that received a substantial amount of MMG senior management attention from 1996 to 2002 was the physician compensation system. Figure 3 shows the amount of time MMG managers devoted to this issue in their meetings over time. This physician compensation issue began with a recognition of physician productivity problems. When physicians

Figure 2. Attention Trends of Internal and External Integration Topic and Related Events



Note: Total meeting time on internal integration issues is 8,801 of 10,730 minutes (82%) and external issues is 1,929 of 10,730 minutes (18%)

Figure 3. Time Spent on New Physician Compensation Model in MMG Senior Management Meetings

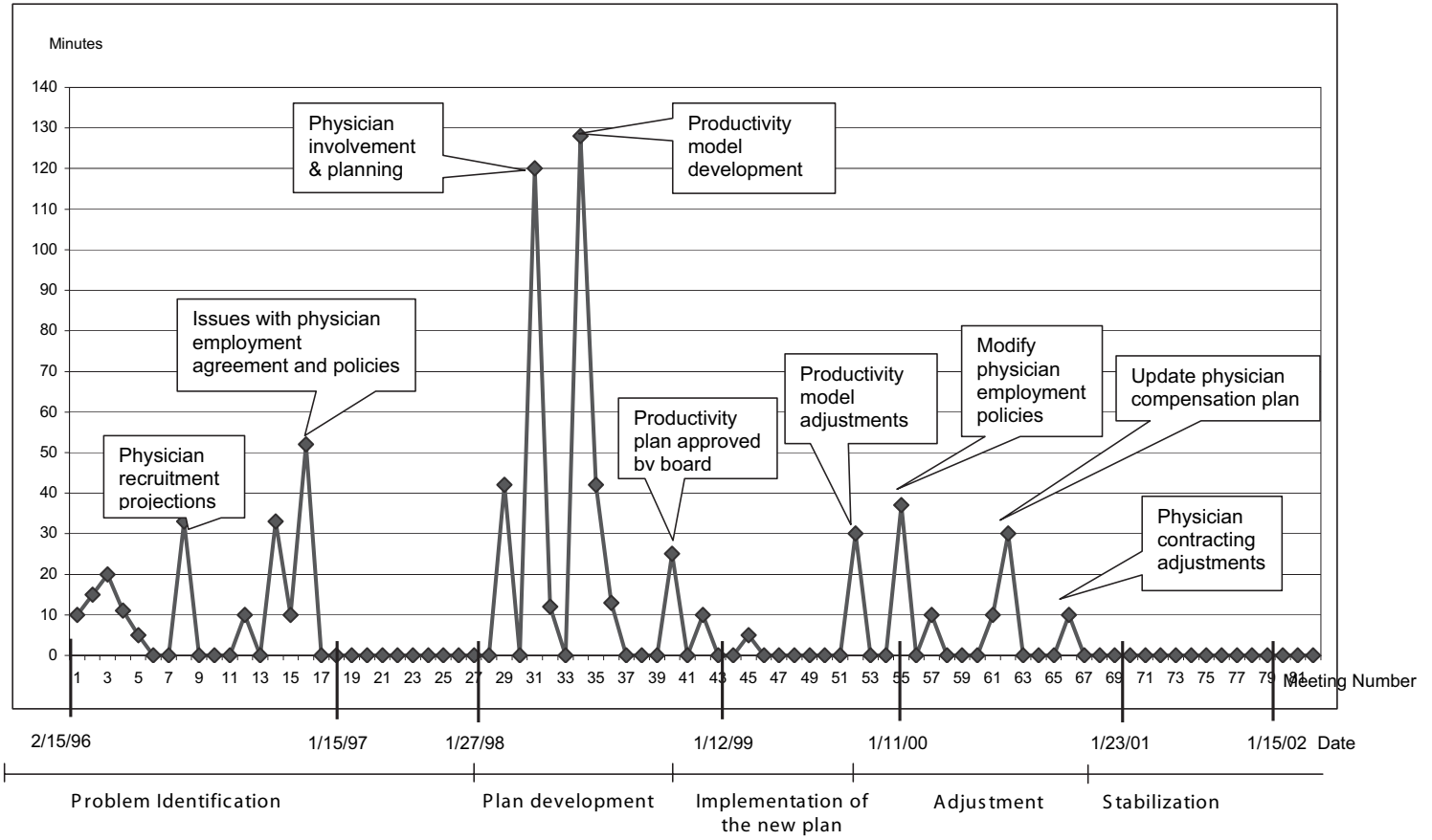


Table 1. Events Related to Recurrent MMG Midwestern Integration Issues

1. System-level concerns about MMG financial losses	
1999/2	Midwestern's comparison of the MMG's performance to a best practice model (The first consultant's study)
2000/6	A commissioned study on the MMG valuation
2000/11	The second consultant's review on the MMG's performance
2. Conflicts with Midwestern hospital-based medical specialists	
1998/3	MMG's attempts to recruit spine surgeon
1998/9	MMG's decision to hire an ophthalmologist
1999/3	MMG's hiring general surgeon
2000/5	MMG's implementing a Healthy Lung program.
2000/9	MMG's sending out proposal for radiology services
3. Midwestern system reorganizations	
1997/1	Developing a new Midwestern organizational structure (three divisions: (1) health plan, (2) the Care Delivery Organization, and (3) Clinical Services
1999/2	Implementing a new organizational structure: the Market Business Segment model
2000/6	Midwestern executive's review on options for restructuring the MMG's role
2001/3	Commissioned study on the MMG's role and organization structure within the system

initially joined the MMG, they received a guaranteed annual salary. In late 1995, MMG managers found that only 1 of 101 physicians on guaranteed salary contracts met productivity expectations, representing an annual cost of $3.3 million. From 1998 to 1999, the MMG management team planned and implemented a new physician compensation system based on productivity. From 1999 to 2002, the MMG management team reviewed periodic progress reports and made occasional adjustments to the physician compensation plan to achieve MMG physician productivity goals.

During the course of this study, the MMG management team implemented many other initiatives to integrate their 50 individual clinics into one medical group. MMG leaders formed cross-functional teams to prioritize operational improvement opportunities, develop plans, and implement changes to improve performance. These teams standardized patient accounting, billing, information systems, auditing, and human resources. The MMG management team also centralized electronic communications, financial accounting, materials management, equipment maintenance, and quality oversight.

External Integration Topics Pattern: Emergent Vicious Cycle

While MMG management attention to internal integration topics showed a rational planning pattern, their attention to topics dealing with external environmental events and relations with other Midwestern system units showed a very different pattern. Three issues surfaced repeatedly in the MMG management discussions: system-level concerns about MMG financial losses, conflicts with Midwestern hospital-based medical specialists, and Midwestern system reorganizations. While the MMG management team spent less time on external integration topics than on internal integration topics, much of the time spent on external topics related to these three recurring issues. We indicate when these issues arose in Figure 2, and summarize the recurrence of these issues in Table 1.

Instead of focusing attention on plans to integrate MMG activities with other Midwestern units, MMG and other Midwestern leaders became trapped in a vicious cycle of escalating conflict and system fragmentation in their responses to these three emergent issues. To describe this vicious cycle, we provide our qualitative findings, focusing on the critical events associated with each of these three recurring issues, the organizational structures underlying attention to these issues, and the sensemaking of MMG and Midwestern leaders related to these issues. Figure 4 illustrates this vicious cycle.

Concerns about MMG Financial Losses

When the Midwestern system merged in 1994, the MMG was structured as a stand-alone division with a separate cost center. To support system-level efficiencies, the MMG transferred revenue-generating ancillaries to Midwestern hospitals. To support system-level strategic goals, the MMG acquired some clinics that were poorly managed and losing money because of their potential to generate referrals to Midwestern hospitals. Midwestern leaders decided not to adopt a transfer pricing mechanism to reflect the value generated by MMG ancillary services and patient referrals to Midwestern's hospitals. Instead, the

Figure 4. Vicious Cycle of Escalating Conflict and System Fragmentation

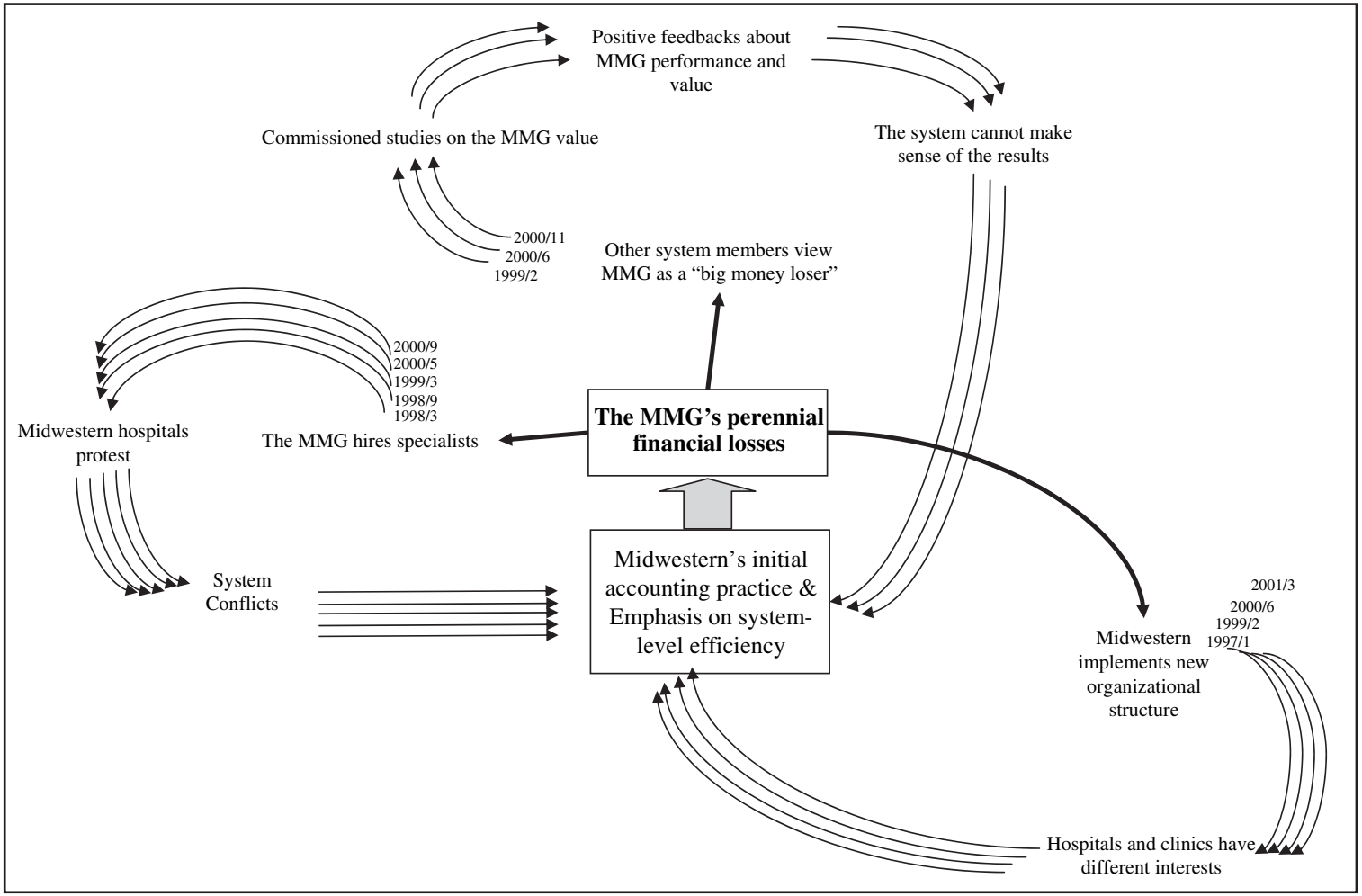


Table 2. MMG Annual Operating and Financial Performance, 1994–2002

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Revenue									
Gross charges	119,380	164,524	204,739	204,491	218,612	259,454	271,470	331,821	390,166
−Discounts	24,393	38,732	58,346	53,756	63,779	77,181	74,041	116,135	150,596
Net patient revenue	94,987	125,792	146,393	150,735	154,833	182,273	197,429	215,686	239,570
Other income	4,277	5,310	4,642	5,913	7,508	10,478	13,255	14,972	18,363
Net revenue	99,264	131,102	151,035	156,648	162,341	192,751	210,684	230,658	257,933
Expenses									
Physician comp & benefits	43,210	54,943	71,533	66,086	62,688	72,939	68,776	73,681	74,404
Other comp & benefits	37,681	52,406	60,180	61,178	65,651	77,254	97,082	104,397	112,537
All other expenses	41,794	52,633	60,769	51,733	51,732	59,089	87,936	100,445	108,813
Total expenses	122,685	159,982	192,482	178,997	180,071	209,282	253,794	278,523	295,754
Net Income (Loss)*	(23,421)	(28,880)	(41,447)	(22,349)	(17,730)	(16,531)	(43,110)	(47,865)	(37,821)
Key Statistics									
No. of patient visits	1,149,096	1,717,288	1,954,693	1,892,141	1,865,120	2,137,005	2,168,890	2,161,563	2,149,040
Charges per visit	103.89	95.80	104.74	108.07	117.21	121.41	125.17	153.51	181.55
Discount rate	20.43%	23.54%	28.50%	26.29%	29.17%	29.75%	27.27%	35.00%	38.60%
Net revenue per visit	86.38	76.34	77.27	82.79	87.04	90.20	97.14	106.71	120.02
Physician FTEs	313	324	380	356	327	374	387	385	382
Support FTEs	1,107	1,573	1,913	1,913	1,898	1,895	2,156	2,207	2,170

*Annual net income is not comparable because formulas and policies on corporate subsidies to MMG changed in 1995, 1996, 1997 and 2000

established accounting procedures treated the MMG as a 'loss leader' or a 'cost of goods sold' in the larger healthcare system. As a result, the MMG operated at a significant financial loss each year from its founding in 1994 through 2002 (see Table 2).

These MMG losses were a source of continued concern to Midwestern system leaders. In February 1999, June 2000, and again in November 2000, Midwestern's top managers commissioned studies to benchmark MMG performance against other system-sponsored primary care groups. In each case, the MMG compared favorably to other groups in productivity, compensation, support staff numbers, ancillary revenues, billing practices, and referrals to other system members. One of these studies showed that MMG contributed more than $500 million in annual net revenue to the system through referrals to Midwestern hospitals. By contrast, the MMG carried far more system overhead expenses compared to other system-sponsored primary care groups. Each study demonstrated that the MMG was performing as well as possible given the constraints placed upon it by the Midwestern system.

Despite the MMG's value to Midwestern and its best practice performance, other Midwestern leaders repeatedly criticized the MMG. According to one Midwestern executive, 'Looking at the MMG's bottom line losses, the hospital leaders started thinking that they must not be very good managers and resented having to subsidize the MMG ... They were making money before they became part of Midwestern and now they were getting fat and lazy.'

These criticisms negatively affected MMG management team morale. One MMG manager noted that 'The MMG's been looked down on — if it weren't for us, the hospitals would have more capital to spend.' In one MMG leadership meeting discussion about a report showing significant improvement in MMG financial performance, one MMG manager lamented, 'If we're doing so great, how come we are not feeling better?' Another manager replied, 'It's because we're in a lousy business. No matter what we do, we lose money.' When asked why the organization did not reflect MMG contributions to Midwestern in the accounting system, executives dismissed this as a valid way to address the MMG financial losses problem. The Midwestern CEO summarizes the system executive view: 'I personally believe that just changing the accounting doesn't solve anything, doesn't change anything except your psyche.'

Conflicts between the MMG and Midwestern Hospital-Based Specialists

In response to the Midwestern accounting procedures, the MMG management attempted to overcome their financial losses. The MMG management team first focused on cost reduction initiatives, and then on increasing revenues by expanding specialty services. MMG cost reduction initiatives went unnoticed by system executives and other Midwestern units. However, MMG attempts to recruit specialists led to repeated high-profile conflicts with other Midwestern system members.

For example, the MMG management team planned to recruit a spine surgeon and offered a contract to a surgeon from outside the Midwestern system in March 1998. A week later, the MMG team learned that Midwestern

had made a commitment to send all Midwestern spine business to a group practicing at one of Midwestern's hospitals. System leaders forced the MMG to comply with this new contract and to retract their employment offer to the independent surgeon. One MMG manager expressed frustration with what she perceived as mixed messages on this issue from Midwestern executives:

'We soon became aware at the beginning of the year that Midwestern supposedly had this specialty strategy that they were pursuing, and that as a prime example we had signed a spine surgeon ... And the very next week we find out that a commitment was made with a group on the City Hospital campus that all Midwestern business goes to them ... So there was supposedly this big overall strategy at the corporate level, but that then ended up being nothing when it came right down to it.'

A similar incident occurred in September 1998. Then in 1999, the Midwestern CEO announced a new policy that the MMG could only hire specialists from outside the system if specialists affiliated with Midwestern hospitals could not meet their needs. Although the MMG leaders attempted to follow this system policy, further conflicts occurred in 1999 and 2000 between the MMG and hospital specialists. Each time, Midwestern system leaders intervened in MMG specialist recruitment efforts, demanding that the MMG retract their decisions and work with Midwestern hospital-affiliated specialists instead.

The MMG president felt that Midwestern leaders were unclear in their guidelines for MMG–specialist relationships:

'The strategy was to have a collaborating set of divisions, each of which would compete fiercely in the market for their customers ... The company told us that you will be judged by your ability to implement the strategy. They said they left unspoken that if you get others upset, we will kill you.'

Other Midwestern leaders had very different views on why these conflicts occurred between the MMG and hospital-affiliated specialists. One hospital leader described the MMG's role in these conflicts this way:

'The more [system leaders] stressed the importance of specialist relationships recognizing that they could take their patients somewhere else, the more [MMG leaders] saw that as caving in to the crybaby, overpaid specialists. [MMG leaders] used their leverage to kind of do it to the specialists — it was good sport.'

The Midwestern CEO attributed these problems to the MMG president's management style:

'The dilemma has been that [the MMG president] has not been able to work with specialists to achieve the larger Midwestern integration view... We are not talking about the internal leadership of the MMG. The problem is when you get out of the sandbox in managing relationships with other parts of the system. I am not saying that [the MMG president] was wrong; only that he has not been able to handle them well and prevent problems from growing to high visibility crisis situations.'

Midwestern System Reorganizations

The MMG was established in 1994 as a separate Midwestern division. In 1995, the MMG president argued that this separation from other Midwestern units was necessary at this critical stage:

'The MMG was founded in order to create a primary care group practice that develops its own identity, clinical care systems and physician leadership ... Most MMG clinics are still too young to play on a level field with hospitals. The MMG needs time to grow and mature.'

In 1996, the Midwestern system experienced unprecedented financial losses. System leaders questioned whether Midwestern's original structure of the MMG operating as a separate division was the best structure to facilitate integration. In January 1997, Midwestern leaders announced a new organizational structure with three divisions: the Health Plan, the Care Delivery Organization (CDO) comprised of Midwestern's hospitals and the MMG, and the Clinical Services division to manage system-wide patient care initiatives. Although these changes were intended to better integrate the MMG with the Midwestern hospitals, the MMG remained a separate cost center and was evaluated as a stand-alone unit within the CDO.

Midwestern experienced escalating financial pressures from 1997 through 1999. In February 1999, the Midwestern CEO announced another reorganization called the Market Business Segments (MBS) model. In the MBS structure, Midwestern would move from three divisions — Health Plan, CDO, and Care Delivery — to two divisions — the Health Plan division and the Hospitals and Clinics division. The Hospital and Clinics division was to realign its various units to meet the needs of specific patient groups. A team representing top managers of each unit met several times to review restructuring options, and in the end, they decided to maintain the status quo and the MMG remained a separate cost center and was treated as a stand-alone market business segment.

MMG losses continued to climb despite Midwestern system reorganizations. In June 2000, the Midwestern executive council reviewed several options for restructuring the MMG's role in the Midwestern system. The executive council rejected the options to divest the MMG, divide clinic management between Midwestern hospitals, or establish the group as a separate division, but deferred a final decision on how to restructure the MMG. In spring 2001, Midwestern executives revisited this issue, commissioning a group to determine how to retain MMG benefits while minimizing its financial losses. This group presented the most promising options to the Midwestern board for a final decision. The decision was put on hold until March 2002 when the Midwestern board decided to maintain the status quo, keeping the hospitals and clinics together in a single division with the MMG as a separate cost center.

With each restructuring, MMG leaders argued in favor of maintaining the group as a separate division. When the MMG was combined with the hospitals in a single division in 1997, MMG leaders expressed concern that the group would lose some of its autonomy and might be treated as little more than 'feeders for hospitals'. The 1999 change to the MBS structure did not quell MMG management fears about losing the group's autonomy. MMG leaders feared that a hospital-centric view would dominate the management of the division. The MMG president expressed his frustration with being combined with the hospitals in a single division:

'If you're the CEO and you say, "I expect you to outperform your competition at all costs" — which is a part of this market segment idea — but then I put you in a box with these other groups who have the ability to impede you, you're sending them a very complex message. Every day the clinics are compounded by the hospital's needs.'

When system executives reviewed options to restructure the MMG in 2000 and 2001, the MMG leaders interpreted these activities as signals that the MMG would be split up, if not divested altogether.

Midwestern system leaders viewed MMG management concerns as misguided. Midwestern executives felt that the original organizational structure with separate hospital and MMG divisions allowed too much unit autonomy and was based on unrealistic expectations that units would naturally cooperate and communicate. Many felt the MMG's need for independence undermined overall system performance. The Midwestern CEO noted that the 'building of the MMG silo may be at the expense of the undoing of the Midwestern system.'

Generative Mechanisms of the Vicious Cycle

The quantitative analysis of attention showed that the MMG focused primarily on internal MMG integration and far less time on integration with other Midwestern units, and far more time on administrative issues than on its core business of patient care. By evaluating this outcome against the MMG's stated purpose, one could conclude that the organization did not achieve what was intended. While the MMG management team made great progress integrating the group's 50 clinics, the team made less progress in patient care initiatives after eight years and failed to integrate MMG activities with the other Midwestern units.

The qualitative analysis of the three recurring issues related to external integration narrates the process producing these outcomes. The Midwestern accounting policy of treating the MMG as a loss leader directed repeated attention to MMG's financial losses. Although benchmarking studies demonstrated that MMG was performing well despite system-level constraints, Midwestern leaders felt that something must be wrong with MMG management. System leaders saw no reason to change the accounting system, seeing the real problem as MMG management, not the accounting system.

The accounting policy that destined the MMG to perennial financial losses also served as an ongoing irritant, triggering many unintended consequences that hampered system integration objectives. MMG leaders responded to criticisms of their management ability by trying to protect themselves. They decided to work harder to improve operational efficiencies. While operational improvements led to decreased costs, they decided to look at the revenue side to achieve a positive bottom line. When they attempted to hire specialists, Midwestern hospital-based specialists protested and argued that the MMG management team was not playing fair. Each time a conflict arose between the MMG and hospital-based specialists, system leaders stepped in to stop MMG's attempts to expand specialty services. These conflicts confirmed to

system leaders that the MMG management was the problem, not the accounting system.

Perennial MMG losses combined with specialist conflicts led system leaders to question the organizational structure. They felt that the existing structure gave the MMG too much freedom, and that combining the MMG with the hospitals in a single division would force them to play fair with their system peers. New rules for MMG specialty hiring decisions were also imposed. However, the hospitals did not want to be saddled with MMG losses. In the new organizational structure, the MMG remained a separate cost center with the same accounting loss leader practices and perennial financial losses. MMG managers viewed these structural changes as a sign that Midwestern hospitals wanted to control them and perhaps even split the group apart, strengthening their resolve to improve their bottom line through expanding specialty services.

The initial accounting structures kept the MMG in essentially the same organizational position after each reorganization, setting the stage for another turn through the vicious cycle of financial losses, benchmarking studies, criticisms of MMG management abilities, specialist conflicts, followed by another reorganization, and heightened MMG management suspicions. As a result of this vicious cycle of interacting structural and sensemaking effects on attention, MMG managers turned inward, focusing primarily on matters within their control, internal integration and efforts to improve the group's financial performance, and focusing far less attention on patient care and integration with the overall system.

Concluding Discussion

We studied the eight-year integration process of the MMG following its formation in the 1994 Midwestern healthcare system merger. We focused on how the MMG senior management team allocated its attention to topics in its regular meetings. Taking an attention-based view, this real-time longitudinal study provides several notable advances to our knowledge of the post-merger integration process.

First, by analyzing time allocation in MMG senior management meetings, we observed that the dominant topic occupying management attention during the integration process focused on designing structures and systems; patient care did not gain substantial attention until year five. In other words, it took much longer than expected for the healthcare system to address the purpose of M&A — improving patient care. Perhaps this finding on time allocation is indicative of the high transaction cost of vertical integration, as other M&A studies have suggested (Jemison and Sitkin 1986; Bastien 2000). Although MMG management's central job is administration and not direct patient care, senior MMG managers surprisingly spent a relatively small fraction of time talking about their core function of patient care. In part, this relationship between time spent on administrative matters versus patient care was a purposeful decision by MMG's first president, who stated in 1995 that he

wanted to organize MMG's administrative functions first before moving on to patient care. The data reflects this decision. However, the first president admitted that he did not expect it would take five to six years before a significant focus of attention turned to patient care. Indeed, when our study ended eight years after the merger, MMG management was still only beginning to tackle the most challenging part of improving patient care — changing the delivery and quality of healthcare by moving toward evidence-based medical practice.

This finding supports the arguments made by previous studies that the acquisition and integration process absorbs significant amounts of managerial energy and attention, diverting the company's attention from core functions such as R&D or innovation (Hitt et al. 1990, 1991). We also found that managerial attention to the post-merger integration issue did not replace its attention to the company's core function. The major reason for the delayed attention to patient care in the MMG management team was not that the MMG senior managers spent so much time and energy on the issue of integration with the other Midwestern units. On the contrary, the MMG senior managers devoted the vast majority of their time to internal integration within the MMG, while not devoting time to linking the MMG with other Midwestern units and their environment. This, in turn, encouraged the perennial vicious cycle of three recurrent issues, which repeatedly interrupted the MMG managers' patient integration efforts. Vaara (2003: 882) also observed 'how integration issues are easily lost in the routine decision making processes' in his case study of a Finnish furniture manufacturer acquiring three Swedish companies. In other words, the core function of the merged company is likely to be undermined not because managers focus too much on the integration issues, but because they tend to lose their focus on the integration issue and ineffectively manage it, at least in the post-merger integration stage.

Second, our observations of patterns of MMG management attention allocation and the underlying vicious cycle during the MMG and the Midwestern integration journey extend the understanding of the integration process beyond the models proposed in previous studies (e.g. Birkinshaw et al. 2000; Nahavandi and Malekzadeh 1988). Birkinshaw et al. (2000) observed a two-phase integration Process: first, acceptable performance is achieved in the individual operation units, and next, serious attempts are made to integrate across them. Our observations suggest that the first stage and the second stage may be inseparable. In terms of the two-phase model (Birkinshaw et al. 2000), the MMG was not able to improve its financial performance to an acceptable level and became stuck in the first phase. MMG managers failed to address issues of integrating with the larger Midwestern system as they did for managing MMG internal integration. Without resolving the different interests with other system units, especially regarding the accounting and specialist hiring issues, the MMG was not able to move beyond the first phase.

Nahavandi and Malekzadeh (1988) proposed another M&A process model focused on the acculturation process in mergers and acquisitions, explaining that the acculturation process occurs at the group and individual levels in the three stages of contact, conflict, and adaptation. This longitudinal study shows

little evidence of adaptation and acculturation, even after eight years of interaction and repeated attempts at structural reorganizations, incentive realignment, and managerial reappointments. The vicious cycle we observed answers the absence of the acculturation in the MMG and Midwestern integration process.

Third, the vicious cycle also effectively demonstrates how persistent the system members' different mental models are and how the organizational structure contributes to the persistence. The system-level executives, hospital managers, and clinic group managers enacted given incidents from their own points of view, and the gap between them was not resolved throughout the eight-year integration process. When the three recurrent incidents occurred, managers in each unit interpreted the situations with 'defense mechanisms of isolation, projection, stereotyping, displacement, and retrospective rationalization' (Van de Ven 1986). Moreover, the organizational structure such as the accounting system of Midwestern moved the attention of managers of each unit to old routine, prohibiting them from developing a new management scheme (Van de Ven 1986). As a result, even though those three recurrent incidents could serve as signals of the need to correct the situation, the managers did not recognize those signals as opportunities to embrace a new approach to managing the integration process, thereby creating an organizational vicious cycle that continually repeated.

This observation is closely linked with previous research taking the social construction perspective. Vaara (2003: 863) provided an in-depth discussion about different sensemaking processes among unit members in the post-merger organization. He explained that 'responsibility for the acquisition, previous organizational and cultural backgrounds, and their roles in the new corporation create different kinds of social identities for the decision-makers, thus providing different frames for interpreting the integration issues.' However, as Weick (2001) argues, developing these different frames for interpreting integration issues is often difficult. Once organizational members make sense of their experiences in a particular way, members are often unable to entertain different explanations for their circumstances.

And finally, by taking an attention-based view of the post-merger integration process, we were able to distinguish between the stated intentions of forming the MMG in the Midwestern merger and what the MMG managers actually paid attention to in their integration journey. The M&A integration process has been examined primarily with an emphasis on the rational aspects of the process (Vaara 2002, 2003). According to the rational view, organizations are purposeful in the sense that the activities and interactions of participants are coordinated to achieve specific goals (Scott 2003). On the other hand, scholars taking an emergent view of management emphasize the shifting aspects of strategy, arguing that intended strategies are often quite different from realized ones (Mintzberg 1990, 1991; Mintzberg and Waters 1985). Our study findings suggest that managerial attention reflects both their deliberate intentions and emergent behaviors in the post-merger integration process. While the MMG managers followed a rational planning process in their internal integration to build a unified medical group, they followed a very different process in their interactions with other Midwestern units and failed to achieve the desired level of system integration.

In this study, we portrayed the post-merger integration process as a journey, not as a discrete, one-time event. This perspective may stimulate further research on the integration process during and after the M&A, challenge some unproven assumptions of the current literature, and elaborate the factors that determine the success or failure of the integration. Also, this study makes a notable methodological contribution to the M&A literature. Because we were able to observe managers' activities on a regular basis for eight years, we were able to observe the sequence of numerous events and activities as they unfolded over time. Methods used to analyze the data gathered in this eight-year study may prove useful to other researchers in studying the post-M&A integration process in other contexts.

Notes

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1 To maintain anonymity, all names of organizations and individuals reported here are fictitious.
2 Operational definitions and coding rules for these seven topics are available from the authors.

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Andrew H. Van de Ven is Vernon H. Heath Professor of Organizational Innovation and Change in the Carlson School of Management of the University of Minnesota. He received his PhD from the University of Wisconsin at Madison in 1972, and was Professor of Management at the Wharton School of the University of Pennsylvania before his present appointment. Since 1994, Van de Ven has been conducting a longitudinal real-time study of the changes that are unfolding in Minnesota health care organizations and industry. He is co-author of *The Innovation Journey* (1999), *Organizational Change and Innovation Processes: Theory and Methods for Research* (2000), *Research on the Management of Innovation: The Minnesota Studies* (1989, reprinted 2000) and *Handbook of Organizational Change and Innovation* (2004), all published by Oxford University Press. Van de Ven was 2000–2001 President of the Academy of Management.
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