**Executive MBA Mergers & Acquisitions**

# Success Factors in Post Merger-Integration

A Master Thesis submitted for the degree of
"Master of Business Administration"

supervised by
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Cologne, May 31st, 2009

# Affidavit

I, **Wolfgang Ziemen**, hereby declare

1. that I am the sole author of the present Master Thesis, “**Success Factors in Post Merger-Integration**”,
   86 pages, bound, and that I have not used any source or tool other than those referenced or any other illicit aid or tool, and
2. that I have not prior to this date submitted this Master Thesis as an examination paper in any form in Austria or abroad.

Vienna, May 31st, 2009

Date Signature

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## Abbreviations

| | |
|---|---|
| a.m. | above mentioned |
| bn | Billion |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| DD | Due Diligence |
| EDP | Electronic Data Processing |
| e.g. | for instance |
| etc. | et cetera |
| HR | Human Resources |
| IT | Information Technology |
| KPI | Key Performance Indicator |
| M&A | Mergers and Acquisitions |
| mn | Million |
| p. | Page |
| PAM | Post Acquisition-Management |
| PMI | Post Merger-Integration |
| pp. | Pages |
| resp. | respectively |
| R&D | Research & Development |

**Abstract**

The integration of acquisitions is still one of the weakest points in the M&A process. Failures of mergers are often caused due to problems in Post Merger-Integration. Given the importance of M&A for company development, failed acquisitions have a huge impact on long-term and short-term goals of the firm. The reasons for success and failure are broadly discussed in publications

The work is aiming to contribute, which are key success factors for Post Merger-Integration in business practice, compared to recommendations given in publications based on studies and experience. The intention is to have a clearer picture of the success drivers in practice and to understand why failure rates are still high despite known success factors.

The approach is considering two aspects: several sources available in public, describing success factors in Post Merger-Integration and giving explanations for failures on one hand and interviews with a small, non representative group of representatives from companies, who are experienced in M&A. With these representatives structured interviews were performed to obtain details regarding: success definition, structure of the integration process (organization, tools, people, responsibilities, and time frame), setup of the process in dependence from internal and external requirements and, their opinion and recommendation on key success factors.

As a result some key success factors, which are highly accepted, are presented, but also some weak points, which can be used to understand and possibly improve the process. Some of these key areas concern the 'Fit of the acquisition', the importance of people in the process, giving special attention to communication aspects and the integration manager (person, role, competencies and responsibility) and to the execution of key success factors considering awareness problems.

# 1. Introduction

## 1.1 Starting Situation and Importance of M&A

Talking about Mergers and Acquisitions very often also is talking about possibilities, chances and synergies. Cost synergies are expected to be bailed, a quantum leap for technology driven companies is expected or a dynamic growth in existing or new markets. All in all, the expectations for the future development of the combined forces are high. Thus, if the price paid is considered to be appropriate, share prices raise and enthusiastic CEOs are extolled and rewarded for their clear-sighted strategy and its path-breaking realization. Often jubilance reaches the peak when the deal is announced. Regularly, less focus seems to be given to the results delivered by the individual acquisition and if those expectations are fulfilled, which were drivers and factors causing the deal. Meeting overall plan and expectations seem to lower the intention to have a look at the subordinated sources of success and any possible acquisition history.

Spectacular failures of mergers or acquisitions, such as the merger between Daimler and Chrysler, show that the challenge of such deal is not mastered when the contracts are signed. A major part of the process needs to be done after the signing. This task is the consolidation of two firms into one corporate entity to realize expected synergies and strategic objectives intended is denominated as Post Merger-Integration ("PMI")[1].

According to several studies less than 50% of mergers return expected results, which in turn means that more than 50% fail[2].

Huge differences can be found in the evaluation of merger success by consulting firms interviewing executives and analyses of market data[3]. These figures seem to be threatening but have to be understood the right way. Thus it is necessary to get an understanding of what is meant by "success". Knowing the meaning of success provides the basis of this work with its focus on the importance of PMI in the M&A process and key factors for successful integration.

Considering the described low success rates on one hand and the importance of M&A on the other hand mergers which are not successful have a huge impact on the results of companies and their shareholder value. Despite the problems caused by the financial crisis, leading to a sharp market decline[4], the M&A-market is still a

[1] In the following the terms "integration", "PMI" and "Post Merger-Integration" will be used synonymously.
[2] See for example: Joppe, J. (2001), Syre (2006), Oliver Wyman (2001), p.3
[3] For a comprehensive compilation of consulting literature about the effects of mergers and PMI it is recommended to have a look at the work of Pautler (2003).
[4] Klien (2008), pp.5f.

multi billion $-market and expected to recover as the motives for mergers remain active.

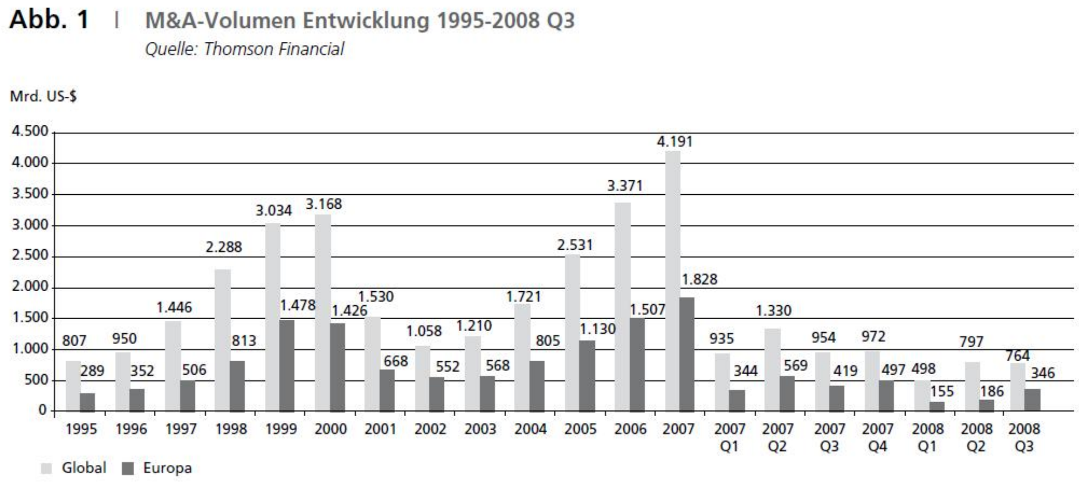


**Figure 1: Development of M&A volume 1995-2008 (Q 3)**
*Source: Tschöke et al. in M&A Review 01/2009, p.19*

## 1.2 Problem and Objectives

For the failure of acquisitions various explanations are offered. Among others the failure of PMI is considered to be one of the possible reasons. In literature a broad variety of concepts and key factors for a successful PMI can be found, partly based on experience partly derived from analytical studies. The result is a huge bunch of recommendations providing a toolbox for successful PMI.

*The objective of this work is to have a look at what is considered to be "M&A-Success" from the point of view of companies and what they consider to be their key success factors in PMI. Thus an indication of main differences between successful and failed acquisition and integration approaches will be obtained. As a final result some key issues, which need to be addressed for a successful PMI is expected. These results will mainly be based on interviews with a small and not representative sample. Hence it is not intended to define general rules, but to compare the given statements with others provided in literature and to deliver some thoughts, findings and argumentation regarding success factors of PMI as considered in companies.*

The concept of this work is as following:

(a) In ***chapter 2*** a brief summary of theoretical background of M&A is given. Especially merger motives and phases of the M&A process will be described as a high influence on PMI is supposed to come from these items. With PMI being the last step in the M&A process the preparation of an appropriate integration basis and professional execution of the deal have major impact on PMI success.

(b) ***Chapter 3*** compiles key success factors for PMI from several sources. For example results of the study from Gerds & Schewe and more recent studies from Roland Berger Strategy Consultants and Deloitte are summarized. We will further have a look at statements given by consulting firms and their representatives respectively. As these studies are mainly based on results derived from European M&A activities it is worth having a look at the way such activities are tackled in the USA to complete the picture. For doing this we will refer to some literature from books and newspaper articles.

(c) In ***chapter 4*** the results of own research will be presented. During structured interviews with representatives of 10 companies we have tried to get an impression how the M&A process in general and the Post Merger-Integration in particular is handled. As a result key success factors derived from the statements given are presented.

(d) Finally in ***chapter 5*** the results of the compilation according to chapter 3 and the interviews according to chapter 4 will be merged to obtain an overall picture of the drivers of PMI and its success factors.

# 2. Theoretical background

## 2.1 Definition of "M&A"

Mergers and Acquisitions (M&A) describes the process of buying and integrating at least two companies or parts of it into one existing or new company. The process is compounded out of two activities: acquisition and merger, whereas the term "merger" describes the way and degree of business combination. Several forms of business combinations exist which are characterized by the degree of legal entity and unity of directive and control rights.

## 2.2 Motivation of mergers

### 2.2.1 General description of motives

M&A is a core task for strategic development and management of companies. The chances given through a successful M&A strategy cover a range of aspects e.g. geographical expansion, purchasing of technological development and others leading to a high importance of M&A for the firm[5]. Thus it can be understood that M&A needs to be always a task on executive level.

Following a strategy based approach the motivation of M&A can be understood either from a Market-Based view (outside-in perspective) or a Resource-Based view

[5] See for example: Deloitte (2006) p. 8, A.T. Kearney (2008) p. 2

(inside-out perspective)[6]. The outside-in perspective tries to analyze, how sustainable and above average results of the company are influenced by external factors. This approach was highly influenced by the works of Porter in the 80s[7]. According to this perspective the sustainable success of companies ("Performance") is affected by the structure of the industry it is in and its behaviour ("Conduct")[8]. Hence the challenge for management is to position the company as good as possible in an attractive industry or niche. To evaluate the attractiveness of markets the Porter's matrix of 5 Forces can be used[9]. To cope with possible barriers (e.g. market entry barriers) M&A can be an appropriate tool. Following the acquisition, strategies for further development need to be put in place (e.g. Cost Leader or Differentiation Strategy)[10].

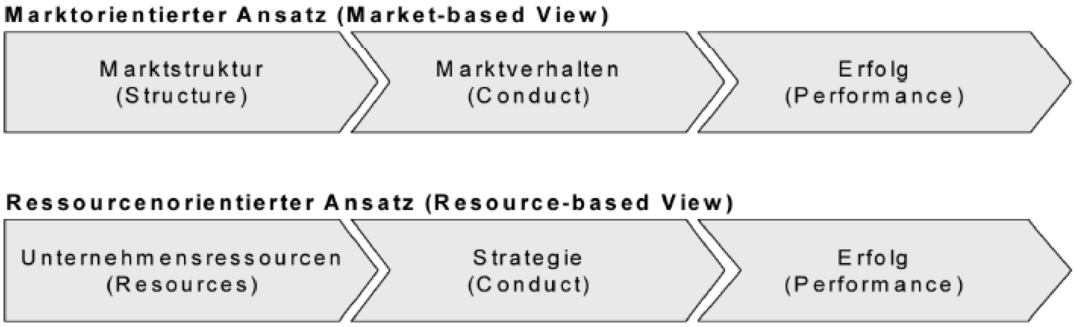


**Figure 2: Comparison of effect chains of Market-based and Resource-based view** *(Source: Wirtz (2003) p. 38)*

The Resource-Based view is following the opposite approach. Companies are considered to be a system of productive resources[11].[12] Sustainable success of companies is generated through combination and use of specific resources[13]. According to Barney resources are "[…] all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement their strategies"[14]. Unique resources

[6] See for example: Wirtz (2003) pp. 35 f.,
[7] Wirtz (2003) p. 35
[8] For further details of the Market-Based view and the roots in the Structure-Conduct-Performance-Paradigm from Mason and Bain it is referred to Bea, Haas (2001) p.24
[9] The 5 forces are given through: (a) New market entrants (= Threats), Suppliers (= Market Power), Buyers (= Bargaining Power); Substitutes (= Threats), Internal Rivalry (=Competitive intensity within industry). For details we refer to: Porter (2008) pp. 36 f., Scheucher (2008) p. 95.
[10] Porter (2008) pp. 71 f.
[11] Source: Bea/Haas (2001) pp. 26 f.
[12] More recent works expand the Resource-based view into several directions. Hence it is supplemented by e.g. a capability-based view or a knowledge-based view. For details reference is given to Mueller-Stewens, Lechner (2005) pp.356 f.
[13] Bea, Haas (2001) p.27
[14] Source: Barney (1991), p. 101 in Wirtz (2003) p. 38

are qualified by characteristics like: unique, specific for the company, not substitutable, generating high value[15].

In reality there will be a strong interdependency between both views as resources will be allocated and directed in the direction of the intended strategy and strategies will be developed based on resources presently or in future available. Thus resources, strategy and success of the company are related to each other[16].

These aspects are driving M&A motivation, whereas one of the perspectives mentioned before regularly is the prevailing aspect.

### 2.2.2 Objectives of M&A

The view at M&A motives can be replenished through the objectives of M&A. An approach to categorize objectives is to separate them into strategic, financial and personal objectives.

#### 2.2.2.1 Strategic objectives

Strategic[17] objectives are characterized by the intention to realize synergies[18] and long-term growth perspectives[19]. Synergies are realized by using economies of scale and economies of scope. Economies of scale describe the fact that costs of goods per unit decrease with higher output volumes. This degression is caused by a better capacity utilisation leading to less fix costs per unit produced[20]. Economies of scope describe the bundling of input factors to produce different products. Through this bundling it is more cost efficient to produce these two products jointly than producing them independently[21].[22]

Long-term growth objectives exist in different areas of the business. The following descriptions give an impression of what could be a growth objective[23]:

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15 Wirtz (2003) pp.40 f.

16 For details refer to: Wirtz (2003) p.43

17 Various definitions of the term strategy exist. A short definition can describe strategy as 'the way to reach the company's goals' (Baum et al. (1999), p. 2). Strategic management can be described as 'a specific method of thinking about the development of the company' (Mueller-Stewens, Lechner (2005) p. 23). This results in a higher importance of an integrative-systemic way of thinking: the strategic fit gains in importance. "Strategic management requires a coordination of all leadership-subsystems. Fit aspects are in the centre of consideration." (Bea, Haas (2001) p. 13)

18 Synergies can be understood as all kinds of advantages based on a joint approach of two or more market participants. Oehlrich differentiates between 'economies of scale', 'economies of scope', 'learning effects' and 'synergies in narrow sense'. The latter comprises e.g., quality improvements, which result in a better acceptance of products in markets and finally lead to higher sales. (Oehlrich (1999), p. 19)

19 Wirtz (2003) pp.58 f.

20 Gugler et al. (2008), p.11

21 The economic formulation of this characteristic is: $C(Q_1, 0) + C(0, Q_2) > C(Q_1, Q_2)$ with C = Costs; Q = Quantity.

22 Gugler et al. (2008), p.13

23 The following description of objectives is referring to the explanation given by Wirtz (2003), pp.60 f.

**Market objectives**: These are objectives either on procuring or on sales markets. For procurement markets especially the generation of higher purchase volumes as well as aspects of supply chain (e.g. extension and protection) are of major interest.

Objectives on sales markets can be extension of customer base (e.g. customer groups, geographical extension), optimization of product portfolio, increase of market shares through acquisition of competitors and others.

**Performance objectives**: The principle of performance objectives is to generate synergies by making joint use of resources and capabilities. This is possible in any function of the business. Operational synergies can be generated e.g. in sales by joining sales organizations, in production by better capacity utilization of machinery and equipment, in R&D by using the joint know-how, having a common portfolio of R&D-projects to avoid similar developments within a group of companies. Non-operational synergies can be achieved through joining administrative functions, such as IT, accounting, human resources etc[24]. Common practice is to set up shared services centres which are taking over these functions if necessary economies of scale are reached.

**Risk objectives**: The reduction of risks is another objective of M&A. Diversification includes the reduction of the variance of cash flows[25] and is reached e.g., by entering into new markets and areas of business and reduction of risks arising e.g. from markets, such as product and customer base, and from technological development. Main intentions behind are spreading risks more widely so it is less affected by the development in one single market and to enter into attractive markets with less competition. Risk is diversified at maximum if the covariance of risk positions equals -1[26].

#### 2.2.2.2 Financial objectives

Financial objectives are considering short and medium term financial results. Sustainable value creation and market positioning are of minor importance. Increasing profitability considering aspects like lack of performance and need for restructuring, presentation of the financial situation, tax optimization or access to capital markets are of major importance. Further objectives are the stabilization of cash flows, improvement of rating, hidden reserves of the target and dilution of underlying business thus, of comparability of (consolidated) figures[27].

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[24] Wirtz (2003) pp.63 f.
[25] Oehlrich (1999), p.21
[26] Oehlrich (1999), p.21
[27] Klien (2008), p.19

#### 2.2.2.3 Personal objectives

Both, strategic and financial objectives are aiming for value creation at first. Insofar they are driven by economic reasons. Personal objectives are characterized by the fact that there does not necessarily need to be an economic reason. The basis for explanation of personal objectives is described through the Principal-agent problem[28], which also exists between shareholders and managers[29]. Basically this Principal-agent problem is coming from asymmetric information, meaning that in specific situations one party has less information than another party and has to rely on the information given by the other party. This information may be incomplete or wrong in case the other party has own interest.

In case of companies a conflict between shareholders and management can exist, as shareholders are interested in maximizing the value of their property whilst the own interest of management is to secure their jobs and optimize their personal income and power. This optimization may be achieved at the expenses of the shareholders as value creation is substituted by growth, meaning that acquisitions are resulting in a diluted profitability through lower margins or overvaluation of the targeted company[30]. Such behaviour is very much depending on the compensation schemes for managers, their ability to raise funds for investments and the Corporate Governance[31] system of the respective country[32].

Such problem finds its expression e.g., in the Managerialism-hypothesis stating that management has an own interest in growing a company as fast as possible if their incentives are related to growth of the company. The fastest way to grow the company is through acquisitions. Hence, these managers (“empire building managers”) will also make investments with negative capital value.[33]

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[28] Principal-agent problems are deriving from asymmetric information .Such situation is given between shareholders and managers. Shareholders have to rely on information given by managers and their capability, but the managers may behave opportunistically and their goals may be different from the ones of the shareholders. Thus problems are arising from the separation between ownership and control. See e.g. Mueller (2008), pp.8 f.

[29] Wirtz (2003), p.69

[30] Mueller (2008), pp.32 f.

[31] Various definitions for the term ‘Corporate Governance’ exist e.g., “Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.” The Journal of Finance, Shleifer and Vishny [1997, page 737]. “Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation. Such as, the board, managers, shareholders and other stakeholders and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of obtaining those objectives and monitoring performance.” OECD, April 1999. Both definitions cited by: Yurtoglu (2008), p.2

[32] Gugler et al. (2008b), pp.57f.

[33] Oehlrich (1999), p.27

Furthermore it needs to be mentioned that there is a "natural" tendency for managers to have a growth of the company to avoid being taken over in the global race of competition.

## 2.3 Categories of M&A

Beside the criteria already mentioned in 2.2 procedure and scope of M&A can be categorized according to various criteria, e.g.:

| | |
|---|---|
| Strategic orientation | o Horizontal: at least two firms with same area of business (e.g. automotive industry)<br>o Vertical: at least two firms operating on different levels of the same value chain (e.g. steel production and mining industry)<br>o Conglomerate: at least two firms with activities in unrelated businesses (e.g. construction works and pharmaceutical industry) |
| Deal financing | o Cash payment<br>o Share payment<br>o Loan financing (Leveraged acquisition) |
| Geographic Orientation | o National<br>o International ("Cross-Border") |

**Table 1: Examples for merger categories**

## 2.4 Phases in M&A-process

The M&A-process can be separated in different phases. A common idealized approach is to separate it into three main phases[34]:

[34] The entire process can be separated in more steps. As we focus on PMI, which is the last step in the process, this simplified form is chosen. Also activities mentioned have to be understood as short-list.

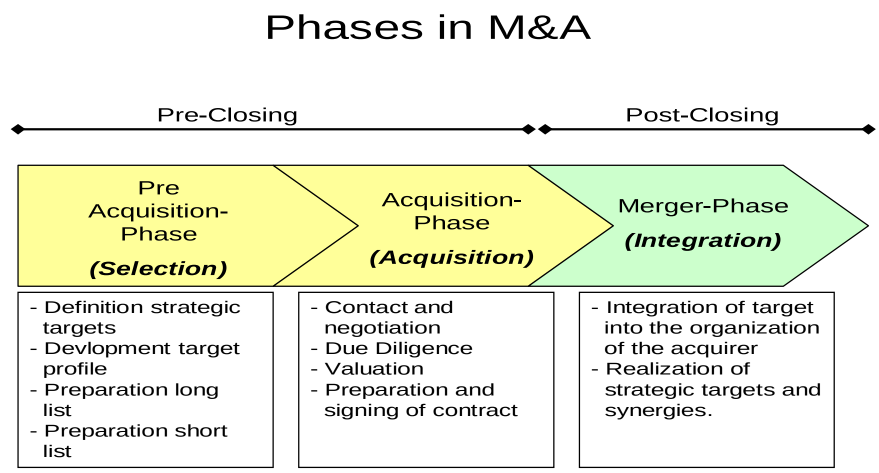


**Figure 3: Phases in M&A Process**

In the first phase (Pre Acquisition-Phase) regularly and ideally possible strategic targets for M&A are defined based on the overall strategy developed by the company (see 2.2.2). Details of a target profile are worked out and a screening and scoring of possible candidates is done.

In the Acquisition-Phase the entire dealings between old and new shareholder is completed, from first contact through detailed investigation of the target and its valuation up to contract negotiation and finally signing of the purchase agreement.

In the final step (Merger-Phase) the acquirer takes over control of the target. In this phase the target is integrated into the organisation of the acquirer. The scope of integration depends on several factors such as strategic objectives, stake in the company etc. During this phase an exchange of resources takes place.

It is important to mention that the phases described above are not following a linear sequence but are partly running in parallel.

## 2.5 Some aspects of Post Merger-Integration

As PMI is the last step of the acquisition process it is necessary to have a brief look at content and situational context, especially at the acquisition situation the moment when PMI starts, to get an impression of the influence given through the preparation in upstream steps.

### 2.5.1 What PMI means

The term PMI comprises all steps, activities, measures to realize the targeted strategic objectives[35]. Thus it is an extremely heterogeneous process trying to combine the facets of two existing companies to reach a common approach to external markets.

The merger phase can be separated into two main aspects: the Post Merger-Integration and the post acquisition management. Post acquisition management comprises all aspects of active structuring of integration and describes the role of the management by taking influence on it. The term "*Post Merger-Integration*" covers all aspects of the integration, not considering whether they can be influenced by post acquisition management or not. Thus, the term "*post acquisition management*" describes a subset of "*Post Merger-Integration*" aspects.

Müller-Stewens is offering a model for integration management consisting of six parts/steps. His integration concept has the following structure[36]:

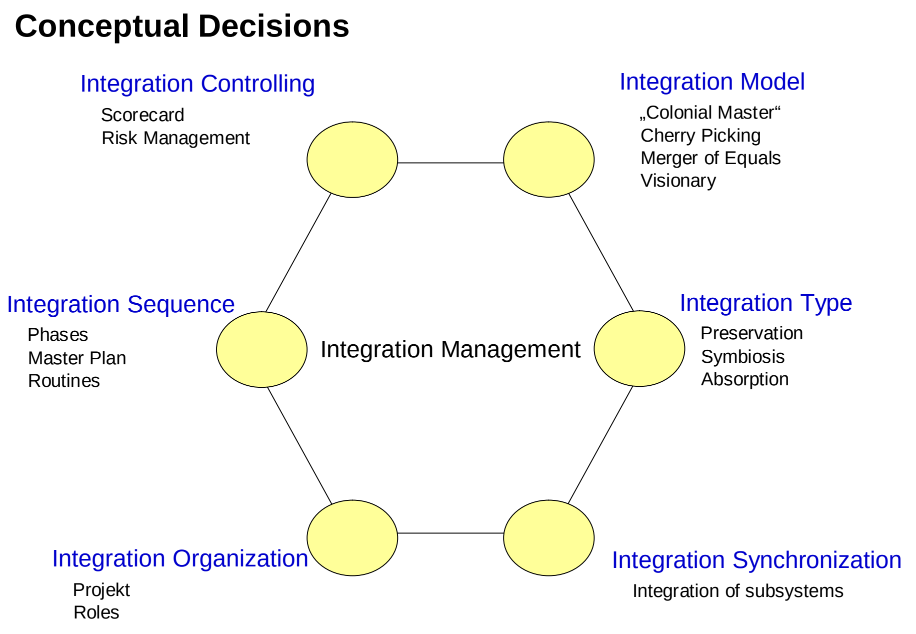


**Figure 4: Conceptual Decisions in PMI** *(Source: G. Müller-Stewens (unknown), p. 49 (translated into english))*

### 2.5.2 Details of process and components

In literature four dimensions[37] can be found to analyze the integration:

[35] A compilation of definitions for PMI is available at Wirtz (2003), p. 272
[36] Mueller-Stewens, Guenter (unknown), p. 49
[37] Carrillo (2004), p. 9 f.

(a) The ***integration process*** covers all aspects of project planning, preparation and execution. Thus a detailed and experienced project management is required.
(b) ***Integration objectives*** can be understood as a subset and thus similar to strategic objectives. Whereas strategic objectives describe group objectives, integration objectives are limited to those objectives to be realized through the acquisition. Thus the contribution of the acquisition to the realization of strategic objectives is covered. Depending on such strategic objectives (e.g. creation of new markets or products) the scope of integration is defined.
(c) ***Integration objects*** are very much related to the intended scope of integration. Using a resource-based view to integration, the integration of all business functions (Sales, R&D, Production, Administration etc.) has to be considered as integration objects. These business objects in turn, contain several components (e.g. personnel, EDP) which need to be addressed separately. Their integration depends again on the scope of integration defined through strategic objectives.
(d) ***Integration design*** is covering all measures taken to realize the integration.

Considering these four dimensions it is obvious that the integration success is very much depending on the preparation and proper execution of the acquisition. In other words, following Müller-Stewens: a lot of mistakes made in the acquisition part(s) of the transaction process cannot be repaired in the integration process[38]. Special attention needs to be paid to factors driving the overall decision and process design (e.g. strategic, cultural, operational and organizational objectives) and routines used for evaluation of the target (e.g. due diligence). If, for example, the target is completely wrong assessed the integration will be more difficult, probably delayed and in several cases impossible.

## 3. Success and success factors in PMI

Still many mergers fail during the PMI and still there is no clear picture of the reasons. Is it due to wrong expectations, a bad transition between Acquisition and Post Merger-Phase or due to a bad preparation of the acquisition leading to the failure of PMI or are there other reasons not yet considered? Why are Private Equity investors more successful than other companies?

Although various surveys[39] and analyses dealing with this subject exist it still needs to be noticed that a lot of statements are made showing a failure ratio of more than

[38] See Krüger, Müller-Stewens (1994), p. 51
[39] A review of older Business Consulting Literature dealing with the effects of Mergers and post merger integration can be obtained at Pautler (2003)

50% for acquisitions. Most of such statements are leaving the question open, why acquisitions are continuously done if the risk to fail is that high.

To get a first overview in the following some surveys, analyses, statements and recommendations for successful M&A activities focusing on Post Merger-Integration and its key success factors are summarized.

## 3.1 European sources

### 3.1.1 Gerds and Schewe (2006)

#### 3.1.1.1 Methodology of the study

The works of Gerds & Schewe are based on a research project of University of Münster and the consulting company Accenture. For this project two surveys were performed: (a) a survey based on statements of project managers in M&A of 120 companies worldwide (b) additional interviews of 70 top-level managers of German companies to evaluate which formula for success they are using. The conceptual basis of survey (a) was an integration model based on more than 40 variables[40] clustered in five blocks A quantitative analyze was done through a quantitative analyze using path analyzing methods. The integration model had the following macrostructure:

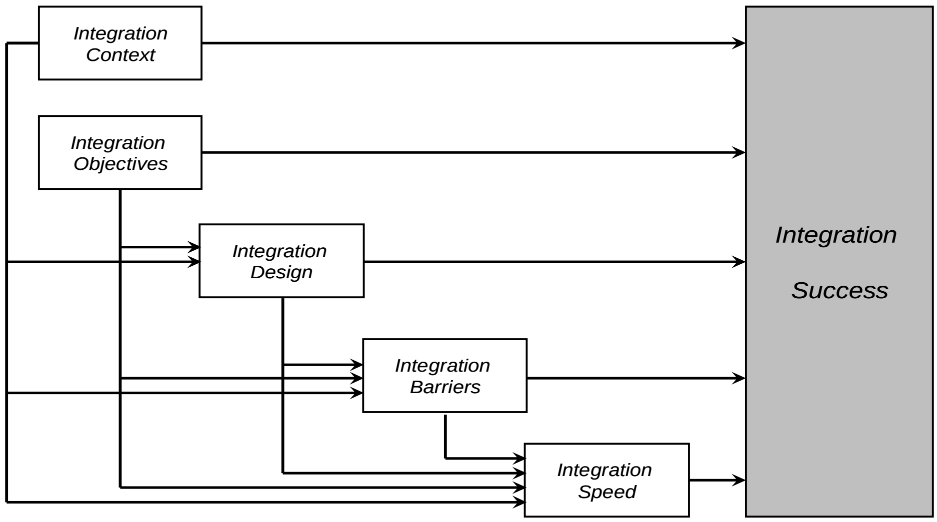


**Figure 5: Macrostructure of Integration Model** *(Source: Gerds & Schewe (2006), p. 196 (translated into English))*

[40] These variables can be denominated as "success factors" as they are often used in their interdependency to explain success or failure of integration projects.

***Integration context*** describes success factors of the specific situation of the merger. Gerds & Schewe have analyzed in their study e.g. Merger-of-Equals[41], Cross-border Mergers and Corporate Mergers[42].

***Integration objectives*** are the integration driving objectives. In the study the intended transfer of resources in the functional areas Research & Development, Production, Logistics, Marketing & Sales; Procurement and Administration was considered.

***Integration design*** is defined by the acquirer after closing to realize the integration[43]. In the study several measures were analyzed, e.g. development of a vision, harmonization of EDP-systems or changes in management.

***Integration barriers*** are given through lack of willingness (e.g. resistance of management to contribute to the integration) or lack of capability (e.g. tool-set or mind-set of employees at the target are not sufficient) as well as administrative barriers. The term covers organizational resistances harming the realization process of integration.

***Integration speed*** is the speed of integration driven by management. It was measured as the portion of integration measures started at a given point of time before or after signing.

"Integration Success" was defined not only based on capital market based valuation models. The authors have evaluated success based on two factors:

- the degree of realization of objectives intended by the acquisition, the result was used to measure the effectiveness of integration
- for the efficiency and sustainability of integration the satisfication of management at both, acquirer and target is important, as well as the realization of important milestones of the integration plan.

Both components were considered to create one key figure "Integration success".

#### 3.1.1.2 Findings and results

The results were showing that 62% of the PMI projects fail and only 9% can be considered as Top Performer, meaning that they significantly exceed their synergy objectives:

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[41] Merger of equals happen between at least two merging companies having same rights in the new company. In such situation no "acquirer" and "target" exist, but two parties on same level.
[42] Corporate mergers are mergers between companies with the same direct or indirect shareholder. Such mergers combine to a high extent restructuring and merger aspects.
[43] Integration design is the main subject of post acquisition management as defined in 2.5.1.

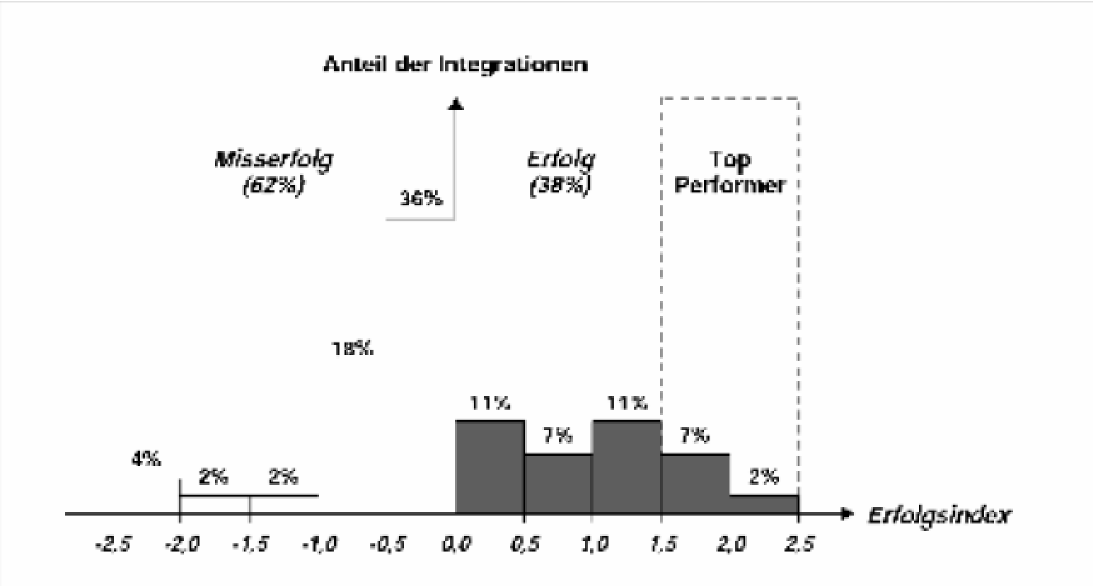


**Figure 6: Success ratios of Integrations** *(Source: Gerds & Schewe (2006), p.15)*

The reasons for these performance differences are very heterogeneous but can be managed through a systematic and consistent integration management. So the key question is what makes the difference between Top-Performers and others.

The authors identified five core activities which are part of any integration: (1) Initiation of integration project, (2) Interlocking of management organization, (3) Staffing of management, (4) Alignment of employees' attitude, (5) Interlocking of operational activities. These five activities and especially their interlinking are of vital importance for success or failure of integration projects.


**Figure 7: Five core activities of Integration** *(Gerds & Schewe (2006), p. 81)*

***(1) Initiation of integration project.***

PMI requires a thorough project management. According to the authors about 2,000 changes and 10,000 non-routine decisions[44] are necessary if two companies are integrated along the entire value chain. This shows challenge and workload for management if they do not have appropriate experience with PMI and are not fully concentrating on this task.

Top performers are showing an approach in this phase to trust more in people than in plans. This also means that top performers use promoters to the project to a much higher extent. Furthermore the selection process for team members for the integration is done in a structured way, considering not only the business expertise of the members but also their acceptance by employees from both organizations to have the integration process running smoothly. Thus experience in management, organizational talent und conceptual as well as analytical expertise are prerequisites for the team members. Regularly these team members are people, who are needed in the organization, but top performers claim a 50% contribution of their work-time for the integration project. Also the involvement of top-level executives and top specialists as well as grey eminences is of vital importance. Executives are necessary to settle disputes, specialists and grey eminences are necessary to explain and transfer decisions into the organization. The latter also can support the integration due to his network within and his knowledge about the organization and the corporate heritage.

Top performers are preparing their integration plan following an 80:20-rule. Following the type of integration, the planning is refined during the integration process. The gap between detailed and macro planning is filled by effective communication.

***(2) Interlocking of management organization***

The scope of interlocking depends on the intended sharing of decision making (e.g. centralized vs. decentralized) to realize synergies. The main task is to define a Corporate Governance structure of the new organization considering Corporate Heritage[45] and any external or internal restrictions.

A main tool for top performers is the linkage of planning and reporting processes as well as the preparation of a tentative and rough pro-forma budget and mid-term planning. In this planning the realization of synergies and the alignment of the future

[44] Gerds & Schewe (2006) p. 84

[45] Corporate Heritage describes in principle cultural aspects of the company based on historical development and traditional values.

organization to the plan is reflected. Furthermore not only cost synergies are considered but also concrete growth perspectives following the merger. In addition necessary expenses to realize such synergies are considered in this planning. Thus the definition and implementation of planning, reporting and controlling tools is of major importance.

***(3) Staffing of management***

In the next step the organization is staffed, starting with top management downwards through the organization. In this phase it is important to select the right key people, preferably through transparent selection criteria to avoid long lasting disputes within the organization. It is important to avoid a Brain Drain, which is coming from the uncertainty in the merger situation and is frequently used by competitors, head hunters and customers to entice the best people away.

Top performers are focusing on two aspects: transfer of management resources wherever necessary and engagement of key employees. This is done for the organization, meaning that these employees do belong to the 'new' but not to the 'old' organization. Especially in case of transfer of management from the acquirer to the target it is necessary to consider transparent selection criteria to avoid the impression of a 'hostile takeover' by the acquiring company, leading to a de-motivation for the employees at the target. The objective is always to reach a knowledge transfer.

***(4) Alignment of employees' attitude***

Employees need to be motivated to deliver performance in the new organization. To reduce possible constraints about their own future it is necessary to convince them that there are more chances than risks. Furthermore people need to be supported and developed in case of non-capability barriers[46].

Top performers are coaching employees to get the new vision realized. Coaching is done by trainings but also by incentives rewarding behaviour supporting the integration and realization of the vision. Three main pre-requisites to define training areas are mentioned: (a) Project management as the basis for successful integration projects, (b) Interviewing to collect information and to define further training needs, (c) Description of business processes to understand similarities and differences of business activities.

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[46] Gerds & Schewe differentiate between two forms of barriers: (a) integration specific barriers deriving from the high complexity of integration projects and (b) subject-specific barriers, coming from a lack of knowledge of joint products, sales channels etc.

***(5) Interlocking of operational activities***

This is the definition of operational activities and the respective responsibility assignment. As operational activities are regularly structured in different ways within companies this task comprises the evaluation, detailed analyze and redesign of processes. Not always processes of the acquirer are better – they might be oversized for the target leading to a loss in flexibility and performance.

Top performers are not only looking theoretically for the merger of operational activities, they are driving the process practically. They are using the window-of-opportunity for change management, as everybody is aware of the pressure for changes accompanying a merger. Especially the following weak points need to be addressed:

- parallel and double work within the organization
- exaggerated centralization leading to higher process times and time pressure
- long ways through the organization leading to a loss of information and actuality
- bottlenecks leading to congestion within the organization
- Unclear decision making.

Within the interlocking of operational activities the integration of the IT systems is of major importance, following the overall integration strategy. Thus it is a decision issue whether the systems will remain independently, partly or fully integrated on a joint platform.

Gerds & Schewe also had a look at the opposite, meaning that they analyzed in their study some basic statements, which can often be found when it comes to PMI and especially the argumentation why PMI failed. In particular they could not find evidence for the following arguments:

- *Conditions of the framework given by the particular situation are decisive for success or failure*. This also comprises the finding, that cross-border mergers are not bearing a higher risk than other mergers.
- *The faster the better*. Also this statement could not be confirmed. An integration which is done at too high speed bears the risk of de-motivation of staff as well as the risk of wrong decisions. The correct prioritization of tasks to solve critical issues and their realization are of major importance for a successful integration.

- *Resistance of staff is the main barrier for a successful integration*. This argument is one of the very common myths often used as excuse. In fact people need to be trained and supported to support the integration.
- *Soft measures are of higher importance than hard measures*. It is the entire range of measures which needs to be used during an integration process. A prevailing effect of measures of one kind could not be found.

Although there could not be found evidence for such statements the perception of barriers among German managers is completely different. The following chart shows how they perceive these "problems", whereas such perception varies between top and middle management.

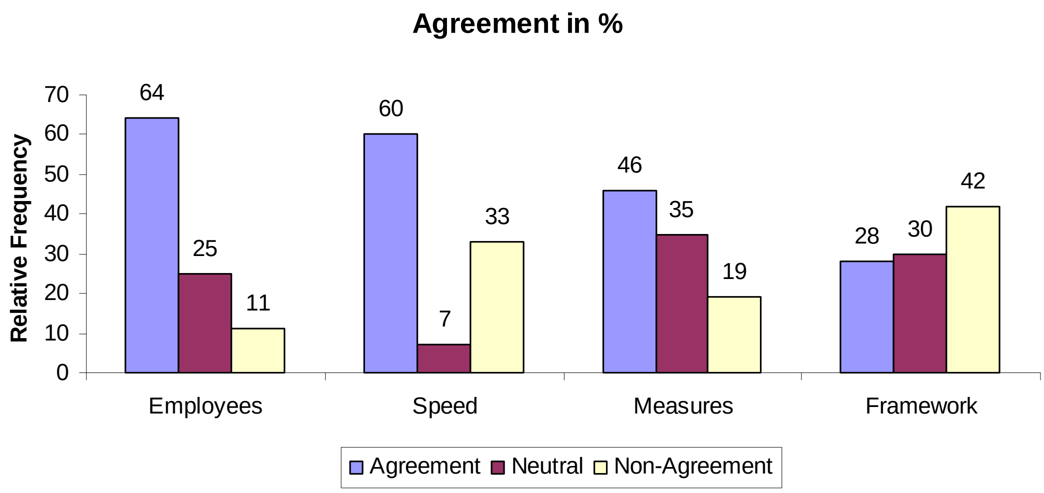


**Figure 8: Agreement of German managers regarding success factors** *(Source: Gerds & Schewe (2006), p.30)*

### 3.1.1.3 Summary and description of key success factors

The work draws a clear picture, which are success factors and which key success factors are used by top performers. Summarizing the results of the study the following key success factors can be noted:

(a) *Structured PMI approach* starting with the staffing of the integration project.

*Top performers trust more in people than in plans*[47]. The selection of the right people for the integration management and the involvement of promoters is of utmost priority. The integration management is obliged to spend at least 50% of their time on the integration project and is selected according to transparent criteria, to get the best people in place and to avoid a suboptimal integration approach due to insider behaviour.

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[47] Gerds & Schewe (2006) p. 95

*Involvement of and support by the executive board* is of vital importance to realize the integration.

*In the beginning of the integration the integration plan has the character of a master plan* which gets and more and more detailed during the integration process.

*Open, intensive, regular and consistent communication* to reduce constraints of stakeholders.

(b) The management organization is interlocked by *defining competencies and responsibilities of both acquirer and target*. This comprises also the decisions regarding centralization of tasks and their operational execution. With the organizational structure elaborated, *synergy objectives can be systematically defined and valued*. Consequently *synergies are modelled in budgets and mid term plans and monitored* through appropriate steering and controlling tools.

(c) For the *staffing of management positions* top performers start a *transparent selection process*. In addition they take measure to retain key employees and *to exchange management resources* between target and acquirer aiming for a *knowledge transfer*. The transparency of the process helps to avoid that rope teams get influence and that employees in the target perceive the acquirer as "conqueror", hence increases the acceptance of new managers.

(d) To *align employees' attitude* top performer do not only communicate open intensive, regular and consistent, they also try to *involve people* to carry forward and *support the new vision*. With several measures (e.g. training, incentives) they try to *overcome barriers arising from missing capability or resistance*.

(e) Top performers give *operational management thorough support in interlocking of operational activities*. This support comprises beside the (re-)definition of business models (e.g. sales channels) also the (re-)design of underlying systems, principles and applications. Using the *momentum of restructuring expectation* at the target changes can be done without having people "loosing their face".

(f) Top performers consider time constraints by an appropriate prioritization. Their integration approach is following an S-curve. In the beginning they introduce the integration aspects to the organization, using the momentum and making people aware of the integration situation. Thus first measures are addressing key people, the communication of the integration vision and the translation of the vision into plan and budget. Interlocking of operational activities and installation of the operational management is done in the second step starting 3-4 months after closing.

### 3.1.2 Roland Berger (2006)[48]

Roland Berger Strategy Consultants published the results of their 2006 PMI survey on internet. The study was based on interviews held with M&A responsibles. The details regarding the interview partners are shown below.

Main M&A objectives are growth (87%) and realization of synergies (60%) driven by globalization and competition trends. In general companies stick to their core business.

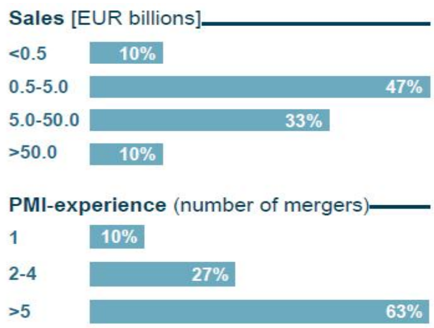


**Figure 9: Survey structure** *(Source: Roland Berger Strategy Consultants (2006) p. 3)*

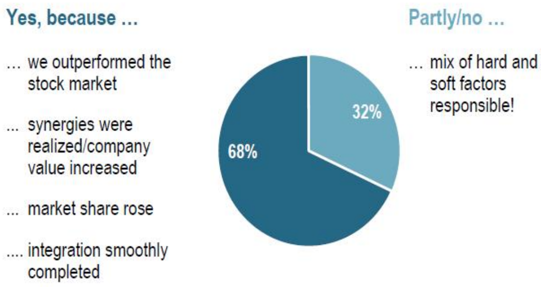


**Figure 10: PMI Success rate** *(Source: Roland Berger Strategy Consultants (2006) p. 13)*

According to the results of the study 68% of the acquisitions were considered to be successful, whilst 32% were not successful due to several reasons.

The reasons for failure are heterogeneous, but 40% coming from the preparation of the acquisition (Due diligence badly conducted, Synergies overestimated) and 60% from PMI aspects, where synergies could not be realized in time or stakeholder resistances and cultural differences were underestimated.

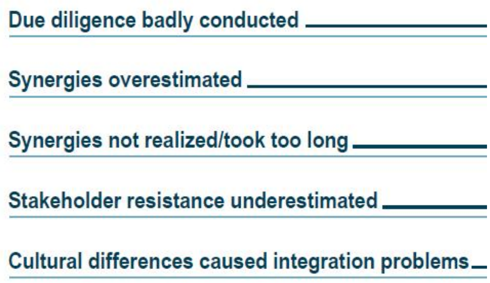


**Figure 11: Reasons for failed mergers** *(Source: Roland Berger Strategy Consultants (2006) p.14)*

The presentation states that the managing of mergers is getting more complex due to increasing expectations from shareholders but

[48] Roland Berger Strategy Consultants (2006)

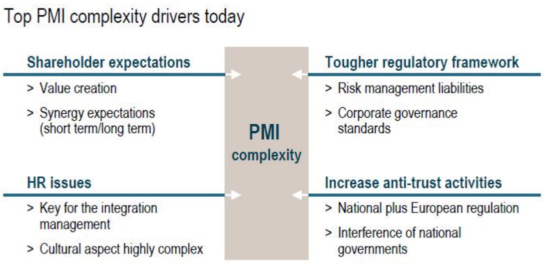


**Figure 12: Top PMI complexity drivers today** *(Source: Roland Berger Strategy Consultants (2006) p.15)*

also tougher regulatory framework, increasing anti-trust activities and HR issues. It needs to be mentioned that in our opinion framework and anti-trust activities aspects are external drivers, having a more indirect influence on PMI and no influence on PAM.

In the view of the study the extended PMI perspective is influenced by its roots coming from the preparation of acquisition and a forward looking perspective considering main aspects of the integration process with a focus on cultural dynamics.


**Figure 13: Experienced managers pay (more) attention to cultural differences** *(Source: Roland Berger Strategy Consultants (2006)* p.16)

Hence the PMI has to fulfil certain requirements like strict synergy management and standards for process and system reengineering to realize the functional implementation. Cultural differences are playing a main role for integration success and experienced managers pay (more) attention to this issue. According to Roland Berger a separation can be made between "*PMI Basics*" and "*PMI Differentiators*". Whilst *PMI Basics* are activities and skills aiming for a pure functional integration and can be understood as more technical processes, *PMI Differentiators* describe the management of complex processes and are a key for integration success.

**"PMI Basics"**

i.e. the activities and skills aiming at **pure functional integration**
> From process integration to quick wins
> A repetitive procedure, manuals are helpful
> Necessary, but not sufficient for success

**"PMI Differentiators"**

i.e. **managing complex processes**, interacting with the relevant internal and external stakeholders
> Convincing/retaining key clients and employees
> Highly volatile, each merger is different
> The lever for sustainable value creation

**Figure 14: Successful Post Merger Integration – requires more than "PMI Basics"** *(Source: Roland Berger Strategy Consultants (2006) p.17)*

The survey analyzed the importance of overall PMI success factors and the capabilities required from a PMI Manager in particular.

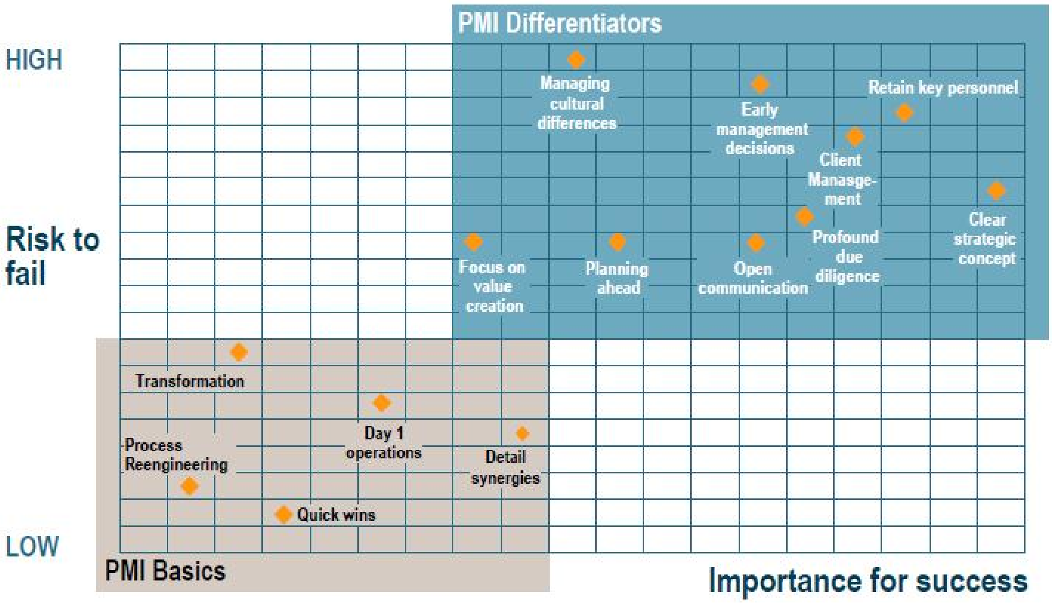


**Figure 15: Two levels of PMI success factors** *(Source: Roland Berger Strategy Consultants (2006) p.18)*

PMI Differentiators are considered to be more important for M&A success but also bear a higher risk to fail. Four out of nine factors mentioned as PMI Differentiators are related to HR and communication (Managing cultural differences, Early management decisions, Retain key personnel, Open communication), two factors are related to following a consistent strategy (Clear strategic concept, Focus on value creation), two are related to the proper preparation of acquisition and integration (Profound due diligence, Planning ahead) and one factor is related to the management of external relations (Client Management). Compared to the PMI Differentiators the PMI Basics are related to more technical aspects like Process

Reengineering and Detail synergies. Their realization bear a low risk to fail but also have a lower importance for success.

The importance of success factors is reflected in the capability ranking for the PMI Manager. The study differentiates between required capabilities today and in future. Also here the importance of HR and communication is prevailing today and in future. Out of five factors in the upper right field four are related to these capabilities (Flexibility, Cultural sensitivity, Communication skills and Integration personality). Furthermore in future the Strategic perspective and Reengineering experience are expected to become more and more important.

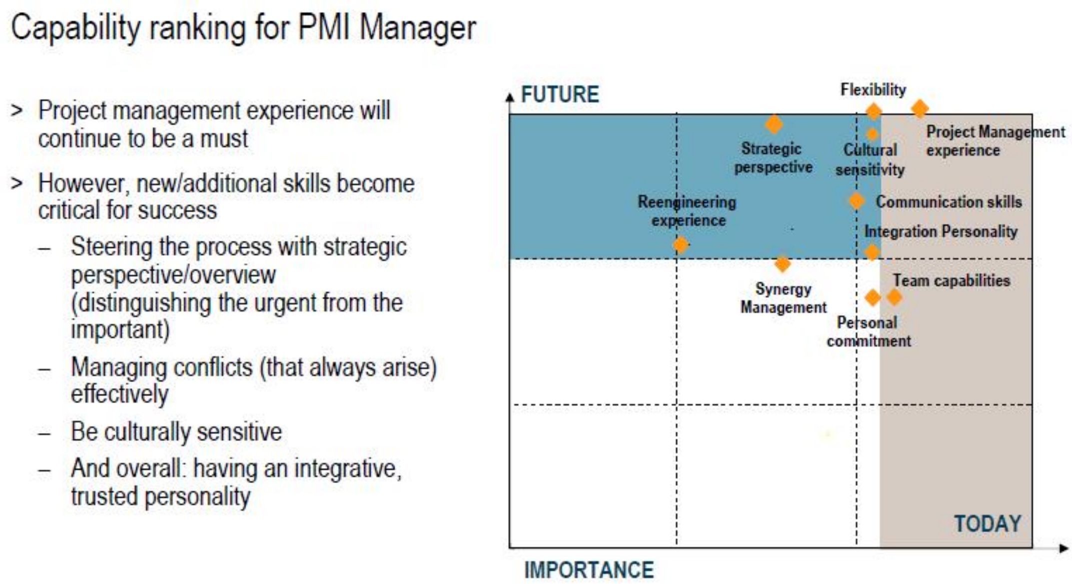


**Figure 16: The PMI manager of the future has to balance hard and soft skills** *(Source: Roland Berger Strategy Consultants (2006) p.19)*

The study concludes that in the end merger success depends on people. Although preparation, tools and manuals might be helpful to deliver results the most important factor is the human factor.

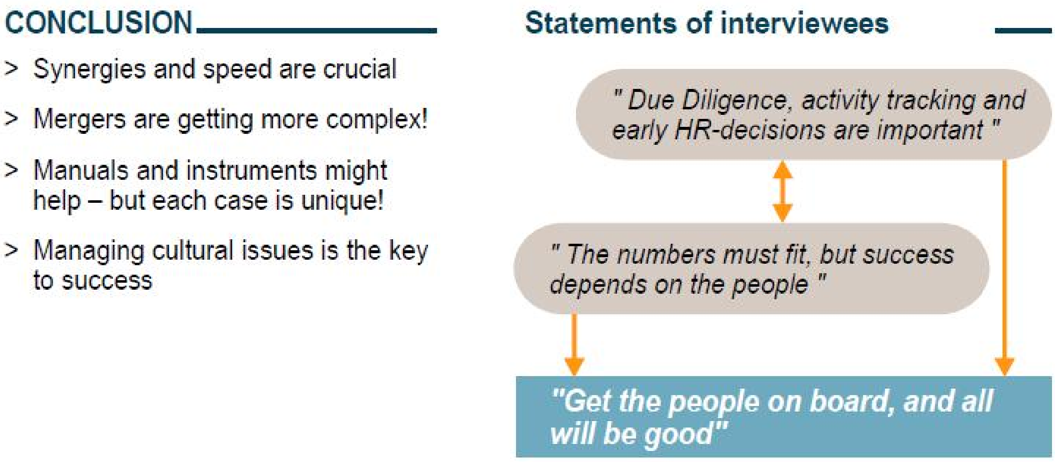


**Figure 17: Conclusion – people are the true value drivers for mergers** *(Source: Roland Berger Strategy Consultants (2006) p.20)*

### 3.1.3 Deloitte (2008)[49]

The survey is based on a detailed online questionnaire filled out by about 60 high level M&A executives of both, private equity houses and corporations. The sample structure was as following:

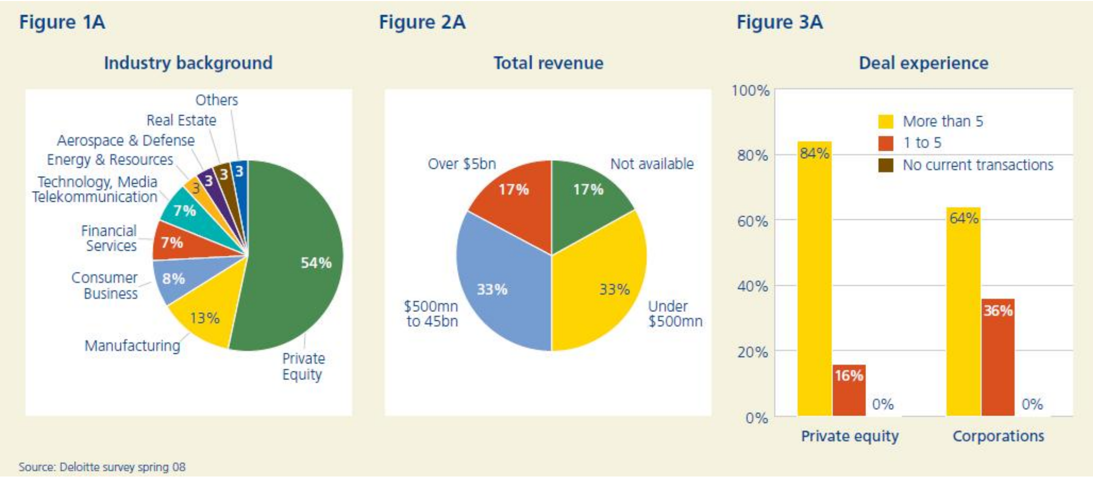


**Figure 18: Survey background** *(Source: Deloitte (2008) p.28)*

Acquisitions are driven by strategic objectives, especially the improvement of competitive position and the geographic expansion into new markets.

[49] Deloitte (2008)

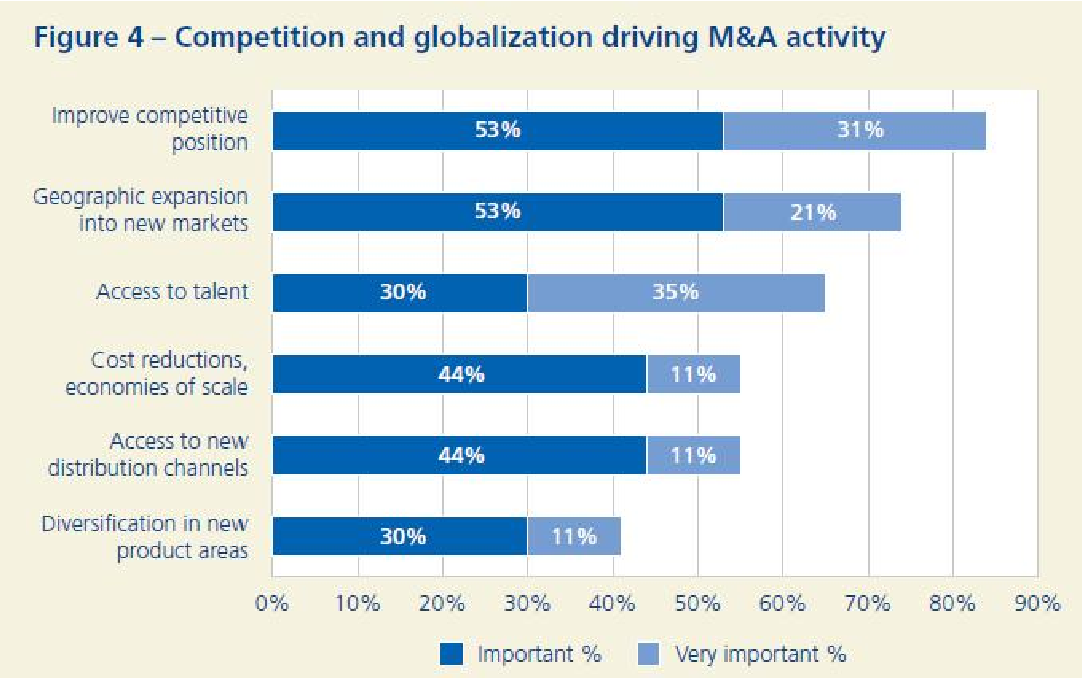


**Figure 19: Drivers of M&A activity** *(Source: Deloitte (2008) p.10)*

To ascertain what are success factors in M&A Deloitte listed 20 deal management tasks grouped into the process phases: due diligence, execution and Post Merger-Integration. The respondents of the questionnaire had to rank these tasks on a scale from 1 (unimportant) to 5 (very important). The results are shown in the following chart:

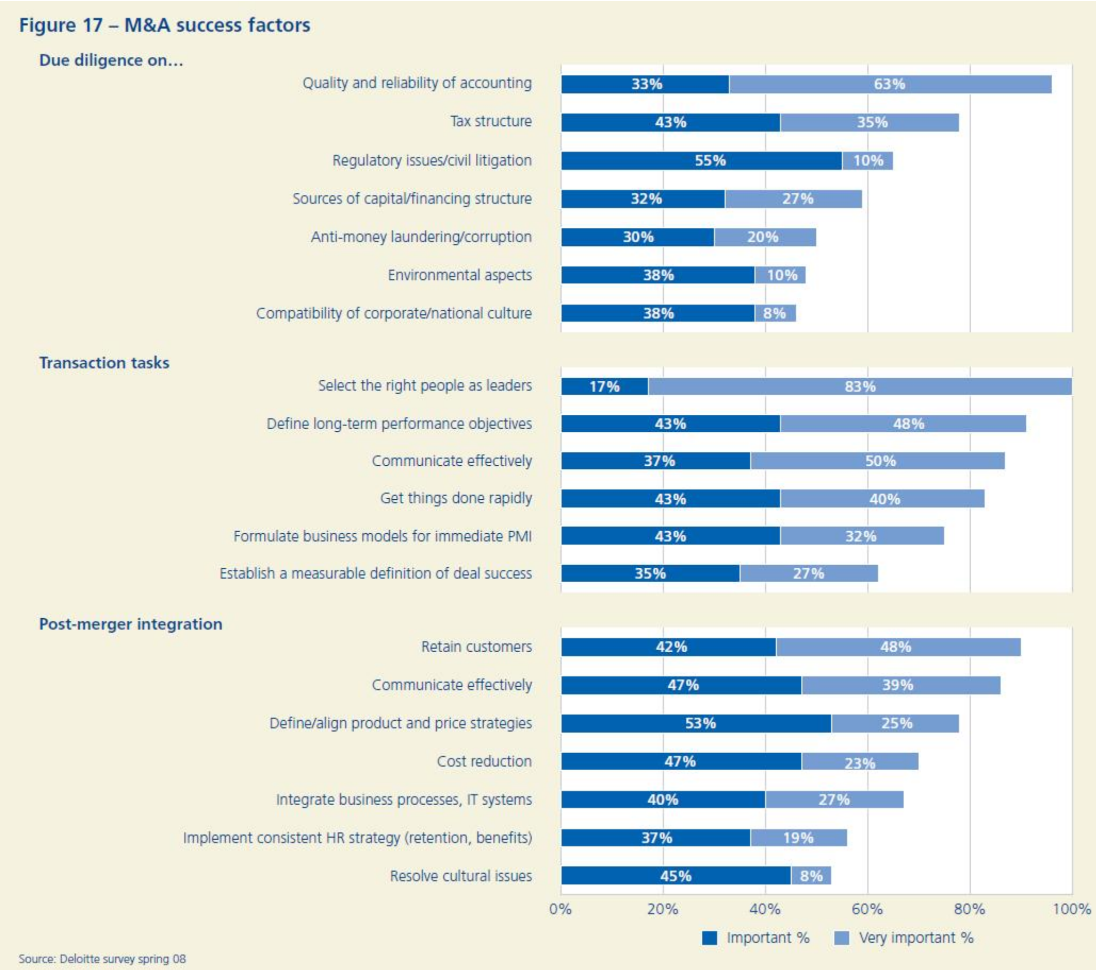


**Figure 20: M&A success factors** *(Source: Deloitte (2008) p.20)*

It can not be concealed that this approach bears the risk that some factors remain concealed. On the other hand several main factors mentioned were also already discovered by Roland Berger and Gerds & Schewe.

Again the selection of the right people as leaders is the most important task and considered as the main success factor by the overwhelming majority of respondents. Also efficient communication and customer retention are

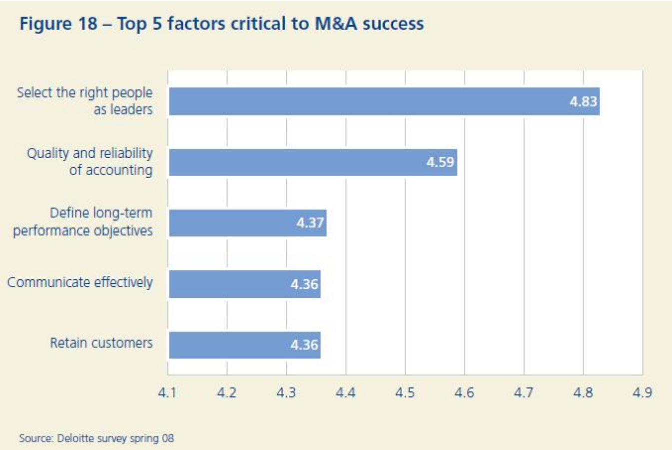


**Figure 21: Top 5 factors critical to M&A success** *(Source: Deloitte (2008) p.21)*

factors already known. Quality and reliability of accounting is a success factor coming from due diligence, thus from the preparation of the acquisition. The definition of long term performance objectives can be understood as transition of strategic objectives into concrete measures performed during the transaction phase, thus before Post Merger-Integration.

Interestingly some aspects considered to have a high impact on merger success by other parties are of minor importance according to this study. For example in Post Merger-Integration success factors *Resolving of cultural issues* is of lowest importance whereas it is one of the key success factors in the RB survey. Possible explanations are of course that RB survey is only qualitative whilst the Deloitte survey also considers quantitative aspects. Other explanations are different sample sizes, responders (Deloitte also considers private equity houses) and different priorities regarding cross border mergers.

The factors described as *PMI Basics* by RB are ranking in the middle of the success factors in Post Merger-Integration described by Deloitte.

Not focusing only on Post Merger-Integration issues Deloitte is using an approach distinguishing between high and low achievers similar to integration excellence described by Gerds & Schewe. It is important to note that the professional preparation and execution of the deal can have a huge impact on the success of Post Merger-Integration. If, for example, the due diligence is not done properly and problems are discovered during the integration process it might be delayed or, even worse, changed in its structure. Deloitte found evidence that a thorough due diligence for all aspects can make a difference in deal's success:

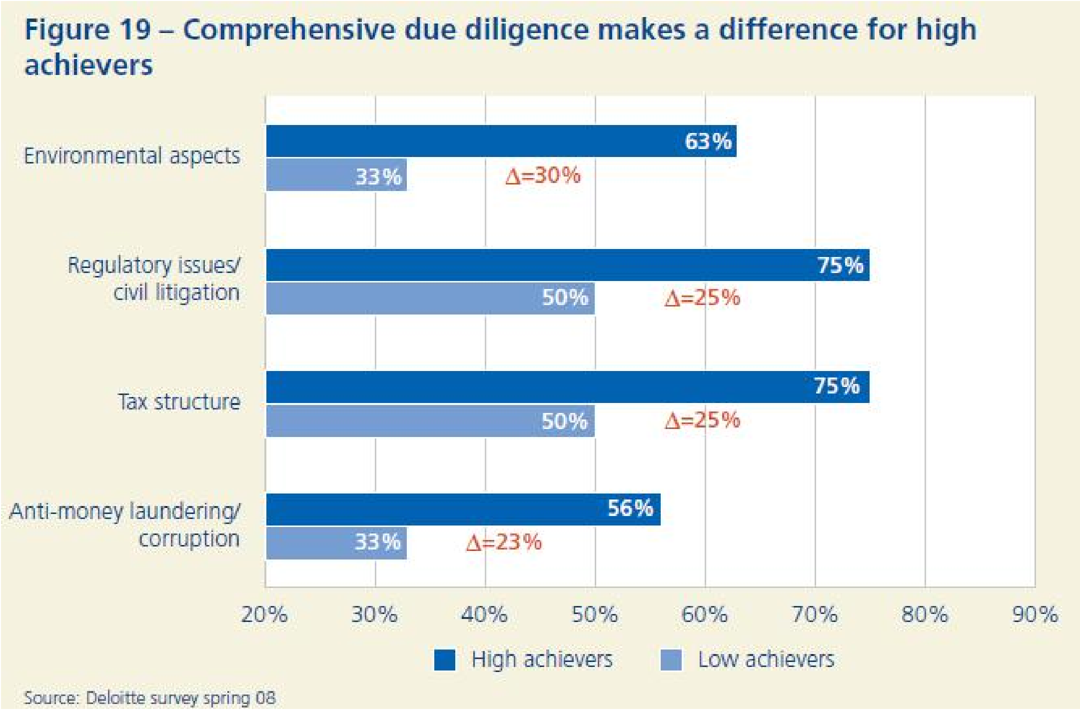


**Figure 22: Comprehensive due diligence makes a difference for high achievers** *(Source: Deloitte (2008) p.22)*

It was also noted in figure 12 that a tougher regulatory framework needs to be considered for PMI success. As shown in figure 22 the difference in considering these issues between high and low achievers is more than 20 percent points.

Big differences can be found in the integration practice of high and low corporate achievers. For both groups priorities are similar with the first two priorities in line with the general rating shown in figure 20. The relevance of items for successful integration are shown below:


**Figure 23: Learning from best practice for a successful integration** *(Source: Deloitte (2008) p.25)*

Customer retention and effective communication is considered to be of high importance at both groups. The difference is increasing when it comes to cultural and HR issues. High achievers know about the relevance of these issues whilst low achievers give less attention to it.

### 3.1.4 Droege & Comp. (2007)

Based on their broad practical experience the authors of the publication, Dr. Juan Rigall and Dr. Björn Röper, both working at consultancy company Droege & Comp., tried to summarize assumptions observed in the practice of M&A and Post Merger-Integration. These assumptions are not proved and thus have the character of "myths". Their intention is to disclose these myths and give some practical advice for recognition and counter steering.

According to the authors the success ratio of M&A projects is about 50%. Main reasons for failures are: misleading evaluation of targets (deficits in due diligence), missing strategic and cultural fit of targets, unrealistic objectives, underestimation of the complexity of M&A projects  deficits in Post Merger-Integration. Often the integration seems to be expected as a project running by itself, whereas it can be observed that after the closing the integration project, especially the development of a new vision and strategy, really needs to be started. Even worse, without having the integration project prepared and started confusion and uncertainty determine the business of the target – a situation inviting competitors, head hunters and other parties chasing for customers and the best heads. As a consequence value is destroyed at least in a short term perspective.

The authors list 12 success factors for merger integration processes[50]:

(1) Early planning of integration, preferably before closing

(2) Ensuring functionality of day-to-day business operations

(3) Extensive and open communication to major stakeholders

(4) 80:20-approach; speed dominates perfectness

(5) Making use of the positive momentum of the first 100 days

(6) Use integration as opportunity for new business orientation

(7) Focus on value enhancement with ambitious goals

(8) Integration-Management as full-time task including involvement of top Management

(9) Speedy basic decisions regarding strategy and management organization

(10) Avoidance of under estimation of cultural/soft factors – bracing of culture of excellence

(11) Restructuring with respect to avoid winner/looser mentality

(12) Making risks transparent and manage them actively.

It is remarkable that these success factors match to 100% to the factors already described by Gerds & Schewe.

Most of the acquirers are familiar with these success factors, but in practice differences between externally communicated statements and the way of understanding or interpretation – either consciously or unconsciously – can be perceived leading to myths. The myths reflect differences between statements and actual behaviour not limited to success factors but influencing them.

In the following table a comparison of myths and reality is summarized:

| | **Myth** | **vs** | **Reality** |
|---|---|---|---|
| 1 | The acquisition is motivated through a clear (growth) strategy. | | Opportunistic acquisition behaviour. Deals get their strategic legitimation "post closing". |
| 2 | Objectives and vision of the acquisition are known. | | A joint vision does not exist. Insufficient communication. |
| 3 | We know exactly what we have bought. | | High intransparency regarding the target. No post closing due diligence. |
| 4 | Deal is deal – purchase price is purchase price. | | Insufficient use of purchase price recovery teams |
| 5 | "The playbook will adjust it" | | No standard integration. Different |

[50] Source: Rigall, Röper (2007a): Translation of table 2 into english.

| | | | |
|---|---|---|---|
| | | | business models not considered appropriately. |
| 6 | We know the success factors of Post Merger-Integration and use them consequently. | | Often insufficient use of know success factors – more problem of application than of recognition. |
| 7 | Integration has to be done additionally to daily business. | | Insufficient dedicated project resources. Insufficient prioritization of integration project. |
| 8 | “10% is always possible. At least 300 employees have to leave.” | | Synergies as living a lie – first guessed, than failed. Mistakes in the execution of realizing synergies. |
| 9 | Worldwide integration projects we get managed out of a central ‘war room’.for Post Merger-Integration | | Integration projects often administered on a technocratic basis instead of performing them on-site |
| 10 | After the deal is before the deal. Hence we conserve our experience for the future. | | No systematic analyze of the experience from past acquisitions. |

**Table 2: Myths and reality in M&A practice** *(Source: Rigall, Juan, Röper, Björn (Droege & Comp.), (2007): Table 3 (translated into English))*

These statements and the difference between myths and reality are understood and interpreted by the authors the following way[51]:

(1) Acquisitions are not always done following a strategic assessment. Often acquisitions are opportunistically done due to a good opportunity. The strategic justification is then done post-closing. Obviously it is difficult to create enthusiastic stories from such deals. With cost and margin drivers being not compatible as expected the strategic rationale is missed which leads in the end to a lower value enhancement. The chance that such acquisitions fail is much higher than for those with clear strategic concept.

(2) For management and employees of both, acquirer and target a clear vision is necessary to join the forces of the companies and offering a perspective to them. People want to know which implications such deal has on their company and their position.

(3) In the due diligence phase it is often not possible to obtain all items relevant for validation and integration. Therefore at the beginning of the integration phase there is not sufficient transparency regarding financial situation in depth (e.g. result per article, customer or region) and KPIs. To start the integration from that point bears the risk of wrong decisions, which need to be corrected afterwards. Thus the authors recommend a post closing due diligence to obtain all items and parameters necessary for identification, quantification and prioritization of synergies.

[51] Numbering is following the a.m. table 2

(4) Too few energy is invested to create negotiation positions for post deal purchase price adjustments. Such positions have to be created by appropriate clauses in the contract already considering approaches regarding reorganization of the company and getting rid of inherited burdens.

(5) A standard procedure in form of a playbook may be helpful but is not sufficient for mastering the integration. A critical success factor is that also specific aspects of the acquired company and its business model are well considered and do not get lost. This is a special challenge to flexibility and sensitivity of the integration management.

(6) Most managers know about the success factors in PMI, but the problem starts with the realization. The reality in integration projects is very much different from theory and the experience in integration projects show the weakness in realization. Unforeseen and politically motivated board decisions, unsystematic staffing of management positions, missing sensitivity when approaching different remuneration and appraisal schemes and externally induced changes in communication are some examples from project reality. Insofar the strict management and orientation to execution are of vital importance to avoid mistakes and get the integration on track.

(7) An integration project is a business disruption which needs to be managed properly. Therefore the attention of the integration manager and key members of the integration team need to be available at 100% for the project. Simply running the integration project beside daily routine work is not a sufficient approach.

(8) Realization of synergies is the litmus test for the integration management. Global assumptions and statements like 10% headcount reduction is always possible lead to lower acceptance and thus, have an impact on the entire integration process. Synergies are regularly defined during due diligence but need to be verified and analyzed in detail at the beginning of the integration process. Following synergies need to be realized and the results have to be controlled. Especially the latter is often missing in integration processes. Finally not only cost synergies but also growth synergies via cross selling, alternative sales channels etc. should be considered.

(9) Integration takes place on-site. Despite many requirements regarding standardization and compliance the consideration of decisions and orders coming from a corporate headquarter in daughter companies is sometimes overestimated. Therefore it is necessary to have an integration management

locally recognizing the integration needs in the particular situation and company.

(10) Often the experience gained during several integrations is not conserved and integrations are executed with changing integration teams. To collect this information and make it available for integration managers and teams the authors recommend a knowledge base and a supporting experts pool.

The article is ending up with ten recommendations having the quality of key success factors in Post Merger-Integration:

(1) Cornerstones of vision and strategy should be fixed before acquisition. The increasing level of knowledge should be used to have the strategy more and more detailed.

(2) Objectives and vision of the acquisition should be phrased sharply and communicated extensively.

(3) Immediately after closing a post closing due diligence should be performed to close information gaps and ensure the basic transparency necessary to ensure the preparation of integration concepts.

(4) Initiation of a purchase price recovery team to have the purchase price renegotiated within 4-6 weeks after acquisition. After this period it is too late.

(5) Ensuring of flexible and sensitive approach towards the business model of the acquired company. Success of the target should not be endangered by an over ambitious integration approach.

(6) Conscious application of well known PMI success factors – strict orientation for realization must be ensured by project management.

(7) Dedicated project team which is disburdened from day to day work needs to be put in place.

(8) A consequent and execution oriented synergy management alongside of central cost and margin drivers has to be ensured.

(9) Avoidance of under estimation of complexity especially in international transactions. Ensuring of a healthy balance between central integration project management and flexible execution on-site.

(10) Preservation of M&A and Post Merger-Integration experience for other projects, where applicable by the creation of appropriate competence pools.

### 3.2 Other sources

Still the question is not considered, if PMI is performed differently in the Anglo-Saxon countries, mainly in the USA. With reference to several guidelines and key success factors available in literature and publications some companies are mentioned as benchmark for a very successful integration management (e.g. Cisco, HP)[52]. In general it can be stated that there is no difference in the basic principles determining integration success, although the approach may vary in some aspects. Thus, in the following it is tried to approach some integration aspects in these countries in particular, supplementing the European approach as described.

#### 3.2.1 Five Frogs on a Log[53]

The book is called a CEO's Field Guide to Accelerating the Transition in Mergers, Acquisitions and Gut Wrenching Change. It was published by Mark L. Feldman and Michael F. Spratt, both being partners and managing directors at PricewaterhouseCoopers' global mergers and acquisitions consulting business. The authors have summarized their experience from more than 20 years in consulting business focusing on Post Merger-Integration in this book.

The book is using to a certain extent the Managerialism-hypothesis as explanation of merger motivation. As a consequence of this hypothesis less attention is given to the Post Merger-Integration rather than to the pre merger phase, bearing – beside others – the risk to recognize very late that strategy and execution are two different sides of a medal.

A key element of the considerations is the factor 'time'. The authors are stressing out the importance of a timely integration approach. This approach is not measured in absolute terms, it has to be understood more in the sense of time used and time lost for the integration in a highly competitive environment[54] and the awareness of these factors in management. Thus speed makes a difference and delay leads to much higher costs for the acquisition by focusing management more on internal problems but on market, business development and exploitation of synergies. These

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[52] Madhavan (2002), pp.21f.
[53] Feldman, Mark L., Spratt, Michael F. (2001)
[54] „All large-scale change, whether merger, acquisition, process reengineering or reorganization, sets in motion a whole new set of secondary and tertiary, temporary and permanent, intentional and unintentional changes in people, relationships, practices, procedures, and behaviours. It exerts a whole new set of external competitive and internal political pressures. It diverts managers and distracts employees.
Following the announcement of a merger or an acquisition, companies are virtually standing still while the playing field is in motion. If they take their eyes off the ball and lose track of priorities, that base hit will a long time coming and a home run will be impossible." Feldman, Mark L., Spratt, Michael F. (2001) p. 21 f.

effects have their expression in shrinking market shares, declining productivity and narrowed margins. In addition people's morale will be affected leading to an exodus of key employees as competitors and head hunters are chasing for the best people. As a final consequence shareholders will loose confidence and ask for the purpose of the deal, if major objectives are not met.

Seven deadly sins in implementing transition and their avoidance are described in the book: The sins can synonymously used for the description of key failure factors:

***(1) Obsessive List Making***: Missing priorities together with an over organized approach will lead to an overload with work for all people in the transition. A prolongation of the transition period can be expected as well as a frustration of workforce and misallocation of resources. Integration is recommended to follow an 80:20-approach with a concentration of resources on prioritised items focusing on value drivers.

***(2) Content-Free communication***: Communication should be a stabilizer keeping all relevant stakeholders (employees, customers, suppliers and investors) informed, focused and energized to ensure the best possible support from their side. In fact, very often communication is content-free, meaning that it consists primarily of hype and promotion producing more questions than answers. The authors recommend a communication stabilizing and mobilizing the company and answering questions surrounding the central theme: 'how am I affected?'. Clarity should supersede doubt and the communication channels have to be flooded with clarity.

***(3) Creating a Planning Circus***: The massive involvement of large scaled project teams from both companies (acquirer and target) together with democratic decision making processes slows progress and dilutes accountability. Focus is recommended to be on launching small, fast-paced transition teams to expedite planning and execution[55]. The transition team should focus on the 20% of value drivers creating 80% of the economic value with the highest probability of success. For the staffing of such teams it is recommended that "Representational democracy, horse-trading, and ego-boosting have no place in the transition process. These transition teams are small, focused and under intense pressure to perform. People without the knowledge, skills, or abilities to contribute in meaningful ways don't

[55] For the staffing of the transition team the authors recommend it to be "… staffed with the best and the brightest people in the organization. To whatever extent possible, team members should be both the behavioral role models and the leaders of the future. The opportunity afforded participants to influence important business decisions not only provides psychic rewards but helps offset the perceived loss of impact that accompanies a transition. This tactic also helps retain key individual and managerial contributors." Feldman, Mark L., Spratt, Michael F. (2001) p. 101

belong on a transition team."[56] For the launch phase of the transition three objectives should be obeyed:

(a) Common understanding for the reasons of the transaction, value drivers, and the actions necessary to be taken in the next months,

(b) Concrete actions plans for all relevant value drivers,

(c) Enabling teams to act.

The transition team should include the the best and brightest people in the organization and focus on the 20% of value drivers driving 80% of the value.

***(4) Barnyard Behaviour***: This will be the result of unclear authorizations, functions, information flow and decision making processes. The world behind of organization charts, hierarchies and titles is often different from its surface, especially in case organizations were simply put together without defining and developing an appropriate approach for practices, policies and culture. The results are internal collisions, collusions, confusion and fights – the barnyard behaviour. Steering and organization is needed, not pleasing both, the management of the acquired and of the acquiring firm without commitment to a new structure. The problem is enforced if two completely different organizations are to be merged, e.g. organizations, well established, with a lot of corporate heritage and young innovative companies[57]. Deadly combinations are often given through different business models but also through requirements which do not fit to the acquired company[58].

But the term 'Barnyard Behaviour' is not limited to this – it also comprises activities, which have to be seen in the light to demonstrate performance and importance of management to shareholders or superiors without appropriate consideration of the underlying value drivers. Such activities are often downsizing or short-sighted cost-cutting measures resulting in lower performance, demotivation of people and lower profits due to the fact that underlying processes, systems etc. are not changed[59]. In

[56] Feldman, Mark L., Spratt, Michael F. (2001) p. 102

[57] "Organizations that demand procedural compliance suffer from creative constipation. They turn bureaucrats into heroes, reward diligence with delay, sand the sharp edges of good ideas, and demoralize optimists. Ultimately, they evolve into parasitic organisms that suck shareholder value into a black hole of infrastructure. No light can escape." Feldman, Mark L., Spratt, Michael F. (2001) p. 116

[58] The author of this work has seen cases in which different business models were forced to be combined in one reporting format. This resulted in a bad position for the acquired company, as the KPIs were not met. Such approaches lead to an unfair presentation of the actual economic situation.

[59] „Achieving Scale Economics: In the 1996 PricewaterhouseCoopers survey of mergers and acquisitions, reduction in operating expense is the fourth most frequently targeted M&A objective (by 38 percent of the respondents). However, it is the eleventh most frequently achieved (15 percent of respondents). Reducing costs invariably proves more difficult than anticipated. On the surface it appears to be a simple matter of eliminating duplication and reducing unnecessary overhead. However, the extraction of cost requires fundamentally altering work processes and procedures, redeploying people, making additional investments in training, and coping with the demoralized and overworked workforce that remains after others are laid off. Reductions in productivity of 20 to 30

principle the same aspects are applicable to the transfer of best practices: best practices of one company do not automatically need to be best practices for another company.

***(5) Preaching Vision and Values***: Integrating two cultures is not coming by itself or simply done by having a joint corporate identity through logos, newsletters or posters or, by waving a banner proclaiming common vision and values. It is a controlled process which needs to be initiated and properly steered.

The importance of combining Corporate Cultures[60] is undoubted, but "though cultural differences are undeniably a challenge, culture is rarely the culprit"[61]. The authors refute that cultural differences are the real reason for failed mergers but often used as an explanation. They point out that Corporate cultural, its change and the behaviour of people can be changed by using a consistent approach. It is determined by the behaviour of people and management[62] and influenced e.g., by rewarding the right behaviour[63].

***(6) Putting Turtles on Fence Posts:*** Following an old Chinese proverb stating that "If you see a turtle on a fence post, you know someone put it there" the problems of making decisions in staffing management and other positions are addressed. In particular problems like the combination of "horse trading" before the deal in combination with justification of transparent selection criteria after the deal and the impairment of jobs compared to managers needs to be considered. Such behaviour most probably also will harm the attempts to change Corporate culture as people may discover that behaviour is not transparently rewarded[64]. Finally this may result in disappointed and frustrated people leaving the company. As leavers are very often high performers the company will have to face a brain drain and probably tougher competition from their own people, then working for their competitors.

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percent are not uncommon, easily offsetting the paper gains that were anticipated as a result of downsizing." Feldman, Mark L., Spratt, Michael F. (2001) p. 122

[60] "Corporate culture – the set of entrenched behaviors that characterize how a company gets things done – has become the ultimate scapegoat and preferred whipping boy of failed mergers and acquisitions." Feldman, Mark L., Spratt, Michael F. (2001) p. 140 f.

[61] Feldman, Mark L., Spratt, Michael F. (2001) p. 142

[62] "Corporate cultures are defined by how employees characteristically handle pivotal business situations that present an opportunity to perform in an extraordinary and distinctive manner. The behaviours of managers and employees under these circumstances determine the company's culture." Feldman, Mark L., Spratt, Michael F. (2001) p. 153

[63] „By consistently reinforcing – through role models and rewards – the correct choices, a company shapes its culture. Consistent reinforcement leads to a kind of "behavioural memory" that takes over and drives desired behaviours in times of crisis. […] Statements about strategic and economic benefits must be converted into straightforward behavioural examples of how people will be expected to operate in the post-deal environment." Feldman, Mark L., Spratt, Michael F. (2001) p. 154

[64] "Misguided, guilt-induced attempts at democratic deployment end up resembling a quota system that violates every proclamation management ever made about the importance of merit." Feldman, Mark L., Spratt, Michael F. (2001) p. 160

***(7) Rewarding the Wrong Behaviours***: Managers are, like all other people, interested in their stake, meaning that their motivation needs some incentive. Unfortunately the architects of post acquisition incentive schemes are very often focusing on the wrong drivers leading to suboptimal schemes. Hence progress in the integration is delayed or circumvented[65]. The authors describe the following six challenges in defining appropriate incentive schemes focusing on value creation.

- Keeping the objective in focus
- Linking incentive payout directly to the creation of economic value
- Avoiding the setting of maximum and minimum opportunity levels
- Requiring participants to make an investment
- Keeping the plan simple and straightforward
- Sponsoring the plan.

Finally the authors summarize their work by recommending the consideration of seven basic principles to obtain merger success:

(a) Base the transition strategy on the economic value drivers.
(b) Aggressively manage communications in order to secure stakeholder support and acceptance.
(c) Launch small, fast-paced, short-term transition teams that will accelerate implementation of the value drivers.
(d) Align organizational roles and responsibilities to ensure clarity of direction.
(e) Build a behaviour-based culture around defining events dictated by the value drivers.
(f) Select and deploy role models who support the desired culture.
(g) Link incentives directly to the creation of shareholder value.

### 3.2.2 Harvard Business Review[66]

The book comprises a compilation of eight articles, first published in Harvard Business Manager during the late 1990s. Four of these articles are dealing with Post Merger-Integration issues. Two articles of these four ('Can This Merger Be Saved?'[67] And 'Who Goes, Who Stays?'[68]) are dealing with problems due to

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[65] „Sooner Is Better: The PricewaterhouseCoopers mergers and acquisitions survey found that 77 percent of participants who implemented effective long-term executive incentive plans within the first three months of their transitions also reported more energetic and enthusiastic management and greater clarity and confidence among employees about the company's direction." Feldman, Mark L., Spratt, Michael F. (2001) p. 172

[66] Harvard business review on mergers and acquisitions (2001)

[67] Harvard business review on mergers and acquisitions (2001), pp. 103-128

[68] Harvard business review on mergers and acquisitions (2001), pp. 129-148

different corporate culture and selection of top management, pointing out the importance of

- having key people defined and in place at an early stage
- consideration of corporate culture and corporate heritage and danger of bunging the organization of the acquirer on a successful target
- Transition of organizational and operational aspects within a new group.

These aspects have the character of key success factors.

The third[69] of the a.m. four articles describes the factors recognized at GE Capital making the integration successful. The authors distinguish four main success factors[70]:

(a) Begin the integration process before the deal is signed

(b) Dedicate a full-time individual to managing the integration process

(c) Implement any necessary restructuring sooner rather than later

(d) Integrate not only the business operations but also the corporate cultures.

The major new aspect to what we have seen earlier is mentioned in (b). Thus it is necessary to have a deeper look at it.

Having a look at (b) means getting familiar with person and role of an integration manager. Integration managers focus on the integration process not on day-today operations. AT GE Capital the importance of such role was found out during several acquisitions. Finally it was recognized that a person acting as contact person and sounding board between acquirer and target could speed up the integration process, also considering that operational management is often overloaded with work, thus not having time for answering “stupid questions” from the target. At GE Capital two types of individuals are eligible for the role as integration manager: the “high-potential individual and the experienced hand”[71]. Strong interpersonal skills are required and having been part of the due diligence team is seen as additional asset. To facilitate the integration process at GE Capital integration managers are:

- “Working closely with the managers of the acquired company to make its practices consistent with GE capital’s requirements and standards.
- Creating strategies to quickly communicate important information about the integration effort to employees.

[69] Harvard business review on mergers and acquisitions (2001), pp .149–180
[70] Harvard business review on mergers and acquisitions (2001), p. 150
[71] Harvard business review on mergers and acquisitions (2001), p. 163

- Helping the new company add functions that may not have existed before, such as risk management or quality improvement."[72]

Furthermore they "help the acquired business understand GE Capital by

- Assisting managers of the newly acquired company as they navigate through the GE Capital system – explaining to a new finance manager in Taipei, for example, who reports to a business in Chicago, how to buy a personal computer through the GE purchasing network.
- Educating the new management team about GE Capital's business cycle; reviews; and such other processes as strategic planning, budgeting and human resource assessments,
- Translating and explaining GE's and GE capital's various acronyms.
- Helping managers of the acquired company understand GE Capital's culture and business customs.
- Helping managers of the acquired company understand both the fundamental and minor changes in their jobs. For example, a CFO accustomed to having full responsibility for tax and treasury accounting needs to be informed that CFOs in the GE Capital system don't usually cover that territory.
- Introducing GE Capital's business practices to the new company, including its "workout", "quality leadership", "change acceleration", and "management education" programs."[73]

Also they "help GE Capital understand the acquired business by

- Making sure managers of the newly acquired company are not swamped with requests for information from GE Capital. A number of integration managers insist for example, that all requests for information go through them so that they can sort through the important ones and allow the other managers to stay focused on the business.
- Briefing GE executives about the newly acquired company to help them understand why it works the way it does."[74]

To bring it on a broader basis the last article focuses on integration managers, what they do and how they do it. Finally four main tasks or strategies are defined:

"**Inject Speed**

- Ramp up planning efforts
- Accelerate implementation

[72] Harvard business review on mergers and acquisitions (2001), p. 178 f.
[73] Harvard business review on mergers and acquisitions (2001), p. 179
[74] Harvard business review on mergers and acquisitions (2001), p. 180 f.

- Push for decisions and actions

- Monitor progress against goals, and pace the integration efforts to meet deadlines.

**Engineer Success**

- Help identify critical business synergies

- Launch 100-day projects to achieve short-term bottom-line results

- Orchestrate transfers of best practices between companies

**Make Social Connections**

- Act as travelling ambassador between locations and businesses

- Serve as lighting rod for hot issues; allow employees to vent

- Interpret the customs, languages and cultures of both companies.

**Create Structure**

- Provide flexible integration frameworks

- Mobilize joint teams

- Create key events and timelines

- Facilitate team and executive reviews."[75]

### 3.3 Overview of Success factors recommended

We have seen several studies for post acquisition management/Post Merger-Integration and we will now summarize the most important facts.

The first study and analysis introduced by Gerds & Schewe, is a very detailed and analysis to explain merger success with a scientific background. Often citied it is undoubtedly a trailblazing study. The study is offering an approach for PMI following five steps in consecutive order: First measures are addressing key people, the communication of the integration vision and the translation of the vision into plan and budget

These five steps comprise several detailed measures, activities and people within a defined timeframe to reach a successful integration.

(1) Initiation of integration project comprising aspects like:

- Trust in people for managing the integration rather than in plans,
- Involvement and commitment of executive board,
- Integration plan is detailed during the integration process,
- Open, intensive, regular and consistent communication to stakeholders.

(2) Interlocking of management organization. Aspects are e.g.:

- Defining competencies and responsibilities of both acquirer and target,
- Synergy objectives can be systematically defined and valued,

[75] Harvard business review on mergers and acquisitions (2001), p. 203

- Synergies are modelled in budgets and mid term plans and monitored.

(3) Staffing of management, considering, e.g.

- transparent selection process
- exchange management resources between target and acquirer
- knowledge transfer

(4) Alignment of employees' attitude, meaning, e.g.

- involvement of people to carry forward and support the new vision
- overcome barriers arising from missing capability or resistance by trainings etc.

, (5) Interlocking of operational activities means e.g.

- operational management gives support in interlocking of operational activities e.g.

  by redefinition of sales channels

Success is defined as the realization of intended and expected synergies. Gerds & Schewe also invalidate common arguments used to explain merger failures. Such arguments are: *Conditions of the framework given by the particular situation are decisive for success or failure; The faster the better; Resistance of staff is the main barrier for a successful integration; Soft measures are of higher importance than hard measures.*

The second study is a survey by Roland Berger Strategy Consultants. As the works from Gerds & Schewe are dating from early 2000s, it is important to know which other and of course, newer aspects can be obtained. The RB survey is from 2006 and shows a success ratio (68%) almost being the opposite of the ratio (38%) calculated by Gerds & Schewe. Having a look at the success definition shows that there are various success definitions not only the one: 'synergies realized'. Reasons for the failure comprise 40% pre-acquisition and 60% post-acquisition aspects, also mentioning aspects which are described as common excuses for integration failure by Gerds & Schewe. (*Stakeholder resistance* is very similar to *Resistance of staff is the main barrier for a successful integration*). The RB survey also points out the necessary strategic fit of acquisition and describes PMI Differentiators, bearing a high risk to fail but also being of high importance for success. Such Differentiators are:

- Focus on value creation
- Planning ahead
- Open communication

- Profound due diligence
- Clear strategic concept
- Managing cultural differences
- Early management decisions
- Client Management
- Retain key personnel.

These factors were almost all already described by Gerds & Schewe and additionally put into a timeframe for integration.

The survey recognizes the importance of people responsible for the integration management. Special attention is given to person and role of the integration manager, who needs to have project management experience but also cultural sensitivity; for the future also more reengineering expertise and strategic perspective is deemed to be needed. Similarities can be noted with the first step in the integration process according to Gerds & Schewe: Selction of the right person as integration manager and trust in people rather more than in plans.

The study of Deloitte is from the year 2008 and focuses on Western European countries with a broader basis of interview partners than the other studies already mentioned. Also their approach having pre-defined questions answered is not fully comparable to the other studies. Nevertheless it is feasible to obtain some reasonable information regarding success factors in post acquisition management to broaden the picture.

Success factors are explicitly listed in Figure 17 of the study and grouped into the three categories: ‘Due Diligence’, ‘Transaction tasks’ and ‘Post-merger integration’. Noticeable, that due diligence was a failure factor also mentioned by Roland Berger Strategy Consultants and is analyzed in detail in Figure 19 of the Deloitte study. Also remarkable is the fact that the selection of the right people as leaders is of utmost importance. Furthermore, the respondents in this study consider the items ‘Get things done rapidly’ and ‘Establish a measurable definition of deal success’ as important for the success. The problems of measurement of deal success were already described above.

The representatives of Droege & Comp. have chosen a completely different approach in their publication dating from 2007. Although they are also describing key success factors for Post Merger-Integration, which match to a high extent with those ones already described by Gerds & Schewe, they have in addition a look at the execution of such success factors. Hence their work is not only about the existence but also about the recognition and application in practice. Some of their findings and recommendations, which could not be found elsewhere, need to be remarked here:

- Sharp definition of objectives and vision of the acquisition as well as the communication about
- post closing due diligence after acquisition to close information gaps and ensure the basic transparency necessary to ensure the preparation of integration concepts
- Ensuring of flexible and sensitive approach towards the business model of the acquired company. Success of the target should not be endangered by an over ambitious integration approach.

In principle their approach is to sharpen known facts and factors to avoid the dilution of integration constraints by procedural or other aspects. Thus the publication can be seen as an appeal for proper execution.

Although based on US American experience the book “Five Frogs on a Log” is taking a similar way, focusing more on constraints of people’s behaviour rather than simple recipes or single measures. The basic principles do not provide more information than already obtained. Important is, that the authors recommend to have the transition strategy based on the economic value drivers. In a broader sense we can recognize two aspects here: (1) to have the transition based on economy not on political considerations and (2) to have measurable factors in the transition. Again, integration is recommended to follow original strategic objectives.

Finally we had a look at famous Harvard Business Review. We could find one edition only dealing with M&A. Again, similar to the US American book mentioned above we could find case studies and practical solutions based on experience or common sense. From this set we derived in detail the article about integration managers, as there was no detailed profile for this important person so far. Almost all publications mentioned this person without giving a detailed description of the profile. Considering the role an integration manager is deemed to play, it is worth having a look at the profile. The one we presented was the only profile found.

# 4. Results from interviews

## 4.1 General description

All interviews were held as structured interviews, meaning that a detailed questionnaire was used as basis and guideline. This method was chosen to get the first answers to the most important questions in a structured way but deepen statements further where possible and necessary through additional questions to derive and understand thoughts behind such statements.

A restriction was given by the time as a limit of one hour was set. Furthermore the intention was to have a sample which is heterogeneous to have a broader variety of opinions.

Although it is clear that a number of 10 interviews will not return statistical significant answers the impression given reflects some temporary impressions in companies.

## 4.2 Sample (interview partners)

In total ten interviews were performed with seniors and executives who have been or are still active in M&A business as acquirer on company side. They all had an economical or legal education, at least 4 years experience in M&A, realized a minimum of 3 projects and a maximum of 40 projects - partly as project manager. 50% of the interview partners were employed in M&A departments, partly as Head of M&A, the other ones in Business development, as Head of Finance or General Counsel. Only two people were from operations, one as CEO of a stock quoted company.

More than 50% of the acquisitions of each interview partner were cross border.

The companies represented are as following:

| | |
|---|---|
| Size | 40% with sales below € 1 bn<br>60% with sales exceeding € 1 bn. |
| Ownership | 50% stock quoted (3 members of DAX, 1 M-DAX, 1 TecDax), 50% privately owned |
| Industries | Technology, Logistics, Engineering, Media, Industrial & Consumer goods, Steel, Service. |

**Table 3: Composition of sample**

We have separated the companies in the sample according to ownership into the a.m. two categories:

- Category 1: Stock quoted
- Category 2: Privately owned.

The sample comprises a total of 152 years of working and 109 years of M&A-experience. 90% of the interview partners have an economical background, one has an engineering background. The competence areas are distributed heterogeneous but have their main emphasis on Strategic management, corporate development, and Corporate Finance[76].

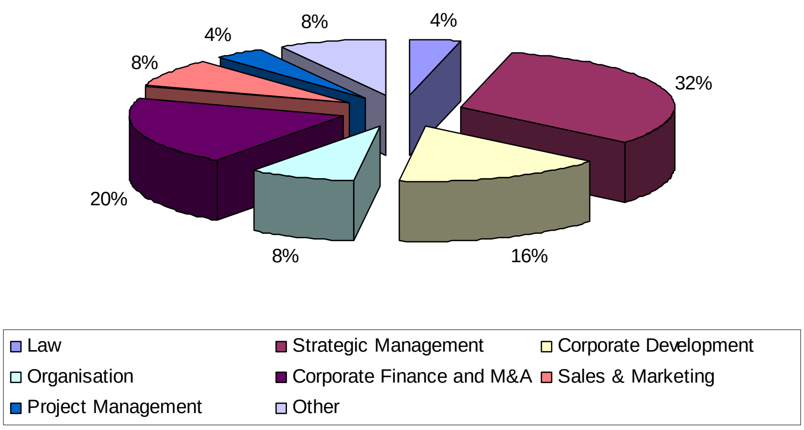


**Figure 24: Distribution of competence areas in the sample**

One of the first questions asked was the number of successful acquisitions. The answers were peculiar and their range reached from percentage to statements that this is not measured. Nevertheless an answer could be obtained from all companies exempt from one.

## 4.3 Findings and results

### 4.3.1 Observations regarding merger success

The success rate of mergers is disappointing and this might be one of the reasons why the question for the ratio between successful and failed mergers was not answered directly by all interviewees either by directly refusing ("I do not want to answer this question") or by avoiding a direct answer ("It sometimes happens, that an acquisition is not successful."). Nevertheless estimation could be obtained in 90% of all cases. One remark regarding the success ratio was "Acquisitions can also be done within 30 days", it is worth to mention, that the success rate in this company was considered to be zero.

The overall rate for 169 acquisitions only reaches 56 successful acquisitions corresponding to a ratio of 33.1% with stock quoted companies performing slightly better than privately owned ones.

[76] Multiple answers were allowed.

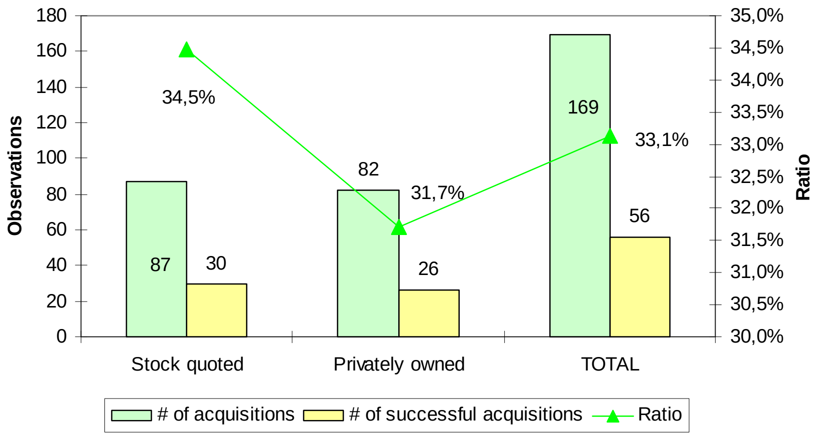


**Figure 25: Successful acquisitions**

### 4.3.2 Understanding of "M&A success"

To understand and interpret the a.m. facts the right way it is necessary to have a look at what is defined as M&A success[77], following the description given in 2.2.2. Due to the composition of the sample the expectation is that the prevailing definition of merger success would be the compliance with strategic objectives[78] as these objectives are very often the story behind figures or a mixture of strategic and financial objectives. Except from one observation this was described as success criteria.

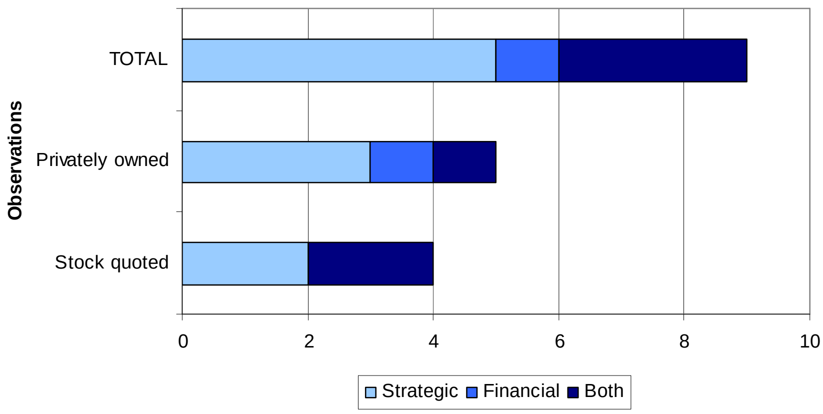


**Figure 26: Success definitions by category**

[77] We had a look at the prevailing aspects, also meaning that strategic objectives would find their expression in more qualitative rather than quantitative aspects, whilst financial objectives are such which could be modelled in terms of budgets and binding objectives.

[78] It is more exceptional that companies consider pure financial targets as M&A success. This is much more the approach of Private Equity-Funds. In case of companies M&A is the motivation for growth, which is usually achieved through strategic development.

Asking for a brief explanation of these criteria, we got a heterogeneous set of answers, giving an insight to what is meant by strategic and financial objectives. Some statements were:

- “We needed the geographical expansion for growth abroad due to the omission of our monopolistic situation at home, but we also needed a “sexy story” for our IPO.”
- “Success is different for each acquisition and can be the development into new markets, customers gained, new products or simply: customers bought.”
- “Through acquisition the company should be brought on a new S-Curve.”
- “The target needs to deliver a profit contribution. Commencing in the second year it needs to fulfil group requirements and KPIs.”
- [Success is shown ] “… as classic hockey stick effect, measured as profit contribution on country level. Single targets are not subject to analyze merger success.”
- [Success is defined ] “… through synergy potentials which need to be quantified. These objectives are pre-defined top down and detailed in the operational units. The respective controlling is done as milestone controlling.”
- “Result of new acquisitions is not monitored. An assessment regarding financial results does not exist.”

As a general trend we could observe, that success was seen differently depending on the function of the interviewee. People involved in the PMI – which was regularly the case in the smaller sized companies, where pre-merger phase and post-merger integration is done by the same person – considered the majorities of mergers as successful, whereas people not directly involved in PMI were sceptical in calling mergers being successful.
Also in-house a different understanding between success and failure exist. This grey zone may come from different common understanding, a different approach in realization or other objectives prevailing strategic objectives. In this light we understand the following statements:

- “Strategy is brought to the company through external advice and offers.”[79]
- “Since we measure success with KPIs I get less stupid acquisition proposals from my operational management.”

[79] Here a case was described where a company abroad was offered for acquisition. The strategic objective was, to have it not acquired by a competitor.

- “The execution of business plans is unrealistic for operational people, bearing in mind how such plans are prepared together with underlying assumptions and the actual situation given. Thus, we only expect our capital costs to be returned.”
- “These guys[80] are just calculating how to get a reduction in headcount, whilst keeping the customers, to show the merger success.”

It needs to be mentioned that this dilution of objectives can lead to statements like “…expected goals were not achieved, but still it was a success.”

Strategic objectives are very often used to define the merger type (see 2.3). Thus strategy and strategic development plays a major role in the overall M&A strategy in practice. Due to the time horizon covered by strategic aspects, a strategy is not remaining unchanged during years. Strategy is nothing static but dynamic. A strategy lives from internal aspects of the company and new developments. Hence, it is influenced by external factors leading to a high degree of influence either through external parties (e.g. M&A advisors, Investment Banks) or through internal demands due to chances the market is offering (internal people receiving the information regarding possible acquisition candidates). In our interviews it was mentioned several times, that potential targets are proposed by externals, either to operational management[81] or to the M&A department. To ensure the strategic fit it is necessary that decision makers are informed about the strategy and support it or that detailed routines are in place to check the compliance of intended mergers with strategy and objectives incurred. Especially in privately owned companies this could be a problem as “…decision making in privately owned companies is different from other companies.” Also, in two cases[82] we could observe that acquisitions are treated as regular investment decisions, leading to a dependence of the investment decision from certain ceilings[83]. Consequently, the behaviour and investment policy

[80] Term used for operational managers.
[81] This was independent whether the company has an own M&A department or not.
[82] Both were DAX30 companies.
[83] “Operational management has the responsibility for selection, acquisition and integration. In the yearly strategic planning also M&A strategy is defined. Targets are recognized through external offers or through screening of potential targets in desired markets. In the project submission it is described how the target can be implemented in the business unit. Especially the strategic objectives are considered. Approvals are depending from the purchase price. The approval includes the mandate to start negotiations. After successful completion of the negotiation an investment proposal, presenting planned synergies, is prepared. Again the approval depends on the purchase price.” (DAX30 company) “The responsibility for selection, acquisition and integration is shared between operational management and M&A department. The M&A process is inspired by operative units and supplemented by M&A department. The M&A department has the role of delivering tools and expertise for the acquisition process. “ (DAX30 company)

of business unit managers need to be observed carefully to prevent managers from ‘empire building’.

Often the long term strategic situation is influenced also by a short term decision situation. This situation can be described as the “Momentum” of decisions. It means that e.g. a chance or an offer has to be taken as it will not be available later on. Such Momentum can also be expressed as a competitive situation forced by the market e.g. due to an intended going public, when a growth strategy wants to be shown.

Defined financial targets are covering a range from pay back of capital costs up to the fulfilment of budgeted goals, although the preparation of a budget could only be observed in two cases. In one of these cases the budget was prepared after the closing.

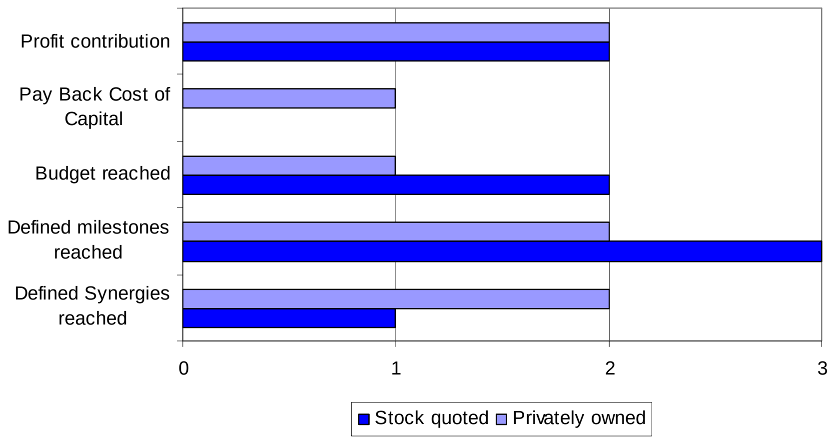


**Figure 27: Measurement of success**

Surprisingly the merger motivation and the merger controlling seem to diverge in some cases, meaning that the success of financial objectives or objectives considering both financial and strategic objectives are measured only according to strategic measures. This happened in 30% of all observed cases:

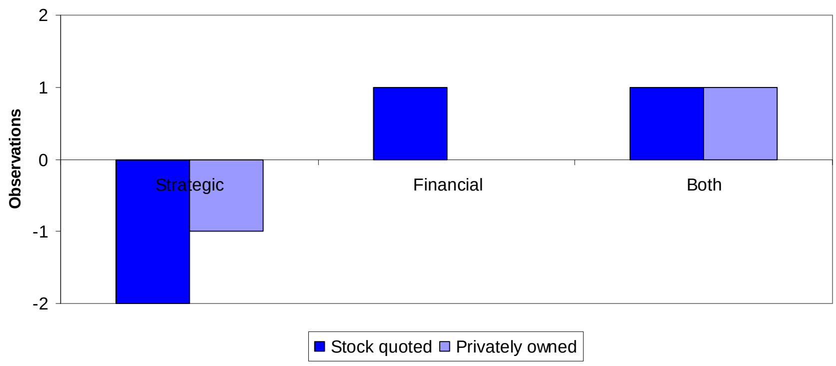


**Figure 28: Changes between Definition and Measurement of success**

This means that in two cases where success was defined through both criteria, strategic and financial and in one case where success was defined through financial criteria before the acquisition the measurement was only following strategic criteria after closing. Financial targets set for the acquisition were not monitored after the acquisition was done. Notwithstanding the reason for such behaviour measurement of success could be subject to violation. As explanation in one case where also a detailed budget was prepared at time of the closing, it was mentioned: "…integration is done as a complete restructuring. During the restructuring the input parameters of the budget constantly change, thus it is difficult to follow up the original budget."
In addition we wanted to know which consequences have to be faced in case of failed acquisitions. With this question another problem area is touched as it is difficult to have one responsible in this complex process. So, the question, who is carrying which share in case of failure seems to be difficult to answer.

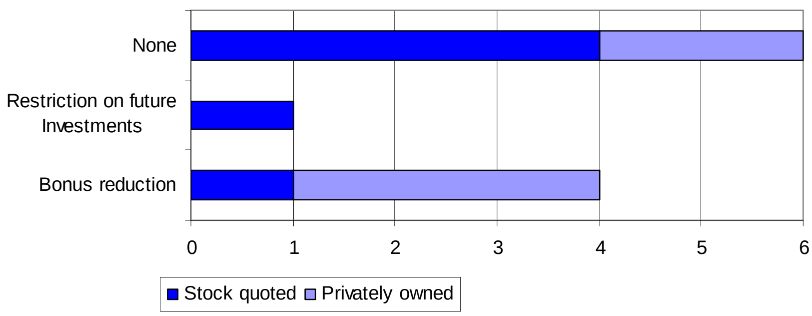


**Figure 29: Consequences of failed integrations**

Consequently the answers were very mixed, reaching from no consequences ("We can not afford failed acquisitions.") up to the reduction of personal bonuses or an impact on the approval of future investment proposals, if a history of failed acquisitions is shown.

Especially in larger organizations, merger candidates are often introduced by operational management, the acquisition is under control of a M&A department and the integration again is done by the operational management. Such procedure bears various problems like information transfer and different capabilities. Thus, the question is how to organize this process. This, finally, is the responsibility of top management.

***Conclusion:*** *M&A success in our industrial sample is understood as fulfilment of sometimes financial, but almost always strategic objectives. Strategic objectives are subject to dilution through e.g. external influence, managerial political requirements*[84] *and opportunity constraints. This bears the risk that for acquisitions not meeting defined strategic objectives, underlying assumptions and objectives are re-defined to have a proper justification for the deal. Measurement of success reflects this situation by switching the character of objectives from "hard" (financial) to "soft" (strategic) factors and sometimes the avoidance of measuring success. Due to the project organization with shared and changing responsibilities as well as changing parameters failure of acquisitions is penalized only in rare cases.*

### 4.3.3 Organization of the M&A Process

In a M&A project usually people with different expertise have to work together. Starting with internal and external "scouts" to look for targets fitting to the defined strategy, through different types of advisors (legal, tax, finance etc.) supporting the structuring of the deal in the acquisition phase up to operational people trying to realize the intended objectives. Considering this it is important to know, how this process is organized to understand problem areas leading to failing PMI projects. Following figure 3 the three phases selection, acquisition and integration are characterized by a heterogeneous composition of tasks, players and their responsibilities.

One of the major tasks during the acquisition phase is the coordination of Due Diligence. The most common types of DD performed by the acquiring company are financial and legal (100%) and IT (90%).

[84] Such requirements can be explained by the Managerialism-hypothesis as already described.

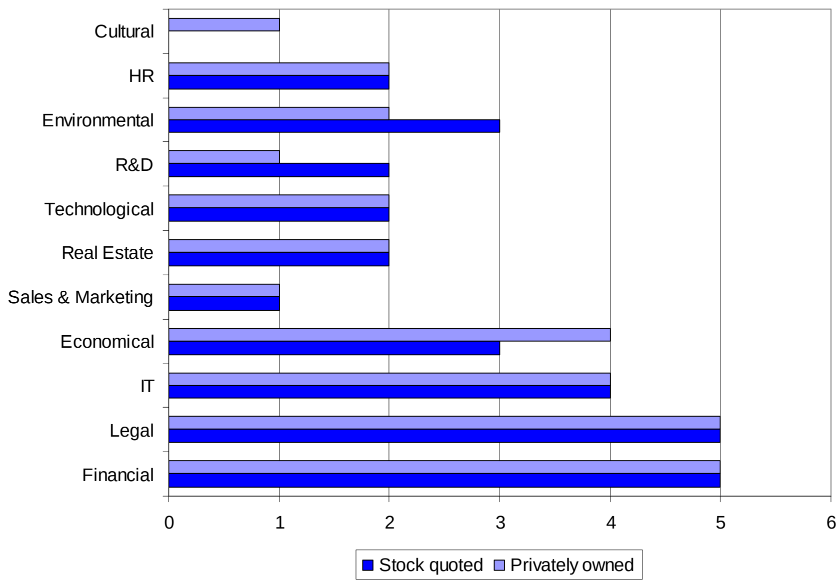


**Figure 30: Standard Areas of Due Diligence**

Scope and distribution of DD shows a prevailing of formal ("hard") facts, whilst DDs for soft factors like HR or Cultural DD are underrepresented. As DD is also depending on strategic objectives of the acquisition, knowledge of the target and other factors the a.m. underrepresentation needs to be investigated further. As general tendency especially large companies perform a full set of DD with sometimes interesting results: "We had 60 people in the data room for a target with € 30 mn in sales. Sometimes the focus gets lost, but then the people with integration experience are very supportive."

With M&A being part of the strategic development of companies the process requires professional management. Consequently 60% of the companies from our sample had an own M&A department. The remaining companies without an own M&A department where three companies with sales exceeding € 500MM and one with sales exceeding € 1 BN. External support is mainly employed in the areas finance and legal, in rare cases also for management selection, political assistance or entry into new markets.

The staffing of the M&A departments depends very much on the size of the company.

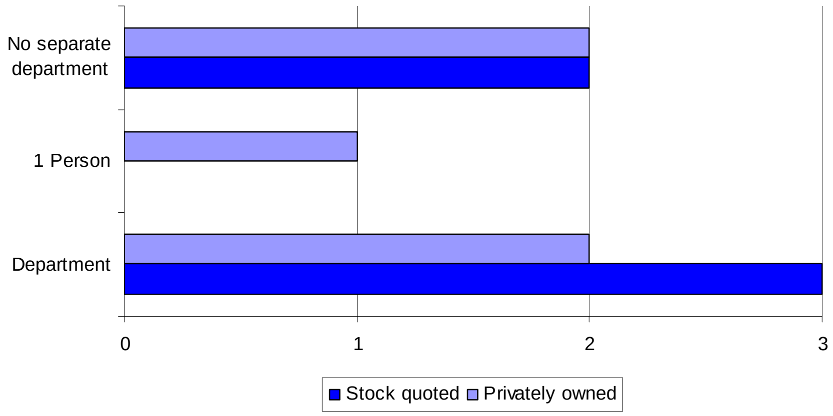


**Figure 31: Staffing of M&A Department**

In case of our sample the main tasks of the M&A Department are to coordinate the selection and acquisition of companies. Exempt from this, in one case the role of the M&A Department was not clearly defined in a privately owned company[85]. In those companies not having an own M&A Department the coordination function is taken over by the CEO directly, the finance department or operational people.

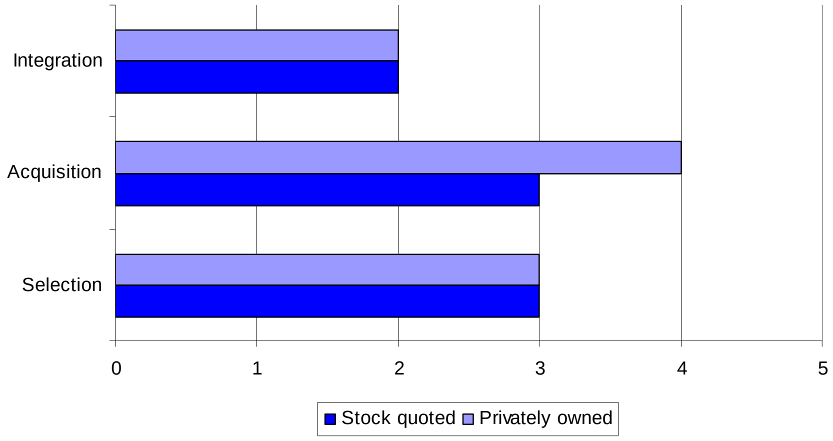


**Figure 32: Role of M&A Department & Individuals**

In four cases the M&A Department also is involved in the Post Integration Management. Based on a Master Integration Plan, which exists in these companies, they support the adaptation of this Plan to the individual situation. Furthermore their role comprises the provision of tools and methods for the integration team and the

[85] "Acquisitions are proposed by operational management. In the process several departments (HR, Finance) are involved. Also one person, in charge for acquisition is consulted. In case of serious interest an investment proposal is prepared for approval by top management."

Post Merger Controlling. Only in one case the M&A department also was directly involved in the integration process[86].

***Conclusions**: The M&A Process is initiated by internal and external factors. Control of the process is in the responsibility of M&A department, top management and operational units. M&A department is mainly involved in the selection and acquisition phase. If it is involved also in the integration phase, its function is almost always limited to a supporting and/or controlling role. Post Merger-Integration is performed by operational units (together with supporting units for administrative functions) with the respective managers being involved in the preparation of the deal at an early stage. Externals are mainly employed in the pre-merger phase.*

### 4.3.4 The Integration Manager

The management of the integration project is the task of the Integration Manager. Thus he has to take care of the operational aspects of the integration. As an education for this profession does not exist it is interesting to know, who these people are. Carrying the burden of all operational aspects of the integration this person should be the best one available.

In our sample the integration managers were the operational managers of the acquiring company with most of them already having the responsibility for the business unit where the target company had to be integrated[87]. Exempt from such cases where only a financial integration took place and targets had the character of venture capital investments no integration manager was coming from the target or was hired as external person. Furthermore in some cases there was no regular decision for an integration manager. In these companies the integration was done by the single departments, reporting to a steering committee or the management board[88].

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[86] "We have a team of four people in the M&A department. One member of this team is also always team member in integrations."

[87] "In the investment proposal [Rem. Proposal which is basis for purchase and subject to top management approval] the person of the integration manager is already pre-defined. After approval the integration manager starts to build his integration team. On day 1 of the acquisition he must have formulated his merger objectives."

[88] "For the integration phase a structured process does not exist. Due to the fact that all department managers are acting independently and individually the approach is very heterogeneous."

"Our approach for integration is following a department approach. Thus the integration process is very fractal as each department is responsible for its integration. Depending on the size of the acquisition a project manager or a steering committee is in place."

"Working groups are defined through day-to-day operations. These are the people already being in charge."

It is noticeable, that the M&A department often is not involved in the selection of integration managers, thus the expressions in the sample were of more general nature.

Without any doubt, there are huge advantages for having integration managers being familiar with organization and procedures of the acquirer and in most cases familiar with the preparation of the deal, but some disadvantages should not be concealed. As already mentioned the integration manager should be the most competent person for this task. One of the interviewees, stating a success ratio of 50% described the situation as following: “Our Company was composed through acquisitions. Hence, we are in the comfortable situation that our managers have a broad experience in integrating other companies.” Of course, this is an exceptional case, because in several other observations it was the first time the integration manager tackled this job. Thus for them it was a situation “once in a lifetime”. As this situation could be observed especially in large organizations a detailed knowledge transfer regarding integration practice is required to support integration managers. Only in one observation a structured knowledge base for integrations existed which was used to train integration managers. As mangers do not need to be the best integrators the question whether the most competent person was selected needs to be discussed further. In addition it needs to be considered that management resources used for an integration process will not be available 100% for the “daily work”.

Other problematic situations related to the person of the integration manager reflected the difficulty of the approach of an integration manager pre-defined by the acquiring company and acting in a way that management and employees felt “conquered” leading to their unwillingness to cooperate.

***Conclusion**: In all cases the responsibility for selection of the integration manager is at the operational units of the acquiring company. In the observed cases, the integration manager had to show his targets for the integration usually before closing. For most of the integration managers in large companies integration management is a once-off experience. In small companies integration management is in the responsibility of top management. The M&A department is regularly not involved in the selection process. For the selection no standard rules and selection criteria could be obtained exempt from him being member of the acquiring operational unit.*

### 4.3.5 Scope of Integration

For the scope of integration two major trends were mentioned in the interviews:

a. **Merger type:** Integration is following the strategic objective of the deal. In other words: horizontal acquisitions are regularly intended to be integrated to a higher degree than vertical acquisitions.

b. **Size:** Larger companies tend to have a higher degree of integration following the necessity of more organization within the company. Such procedure bears the danger of dissynergies through inadequate integration measures (e.g. oversized EDP, not matching reports) destroying cost efficiencies and flexibility. The integration manager and the integration team need to prove an appropriate visual judgement in these cases. The approach of the small companies in our sample could be described as awareness building; their intention was to have all companies in their group acting like fish in a shoal[89], [90].

[89] "Our intention was to set up a network abroad, similar to our existing organization. Therefore we wanted to have majorities in the acquired companies and have them fully integrated." (DAX30 company)
"We have integrated some companies in or business [Rem. automotive industry]. A full integration was necessary to fulfil the requirements of our customers." (Stock quoted company)
"Our strategic approach is presently a horizontal expansion. In the past we have sometimes left these companies acting on their own. But we have made bad experiences, leaving owner-managers as CEO in place, as the necessary transparency could not be obtained. Hence we now integrate such companies fully." (DAX30 company)
"The depth of integration is following our strategic concerns, but we try to have 100% integration." (DAX30 company)
"The integration depends on the business unit acquiring.. In our established business areas we try to integrate companies fully, in venture investments we have a very low level of integration." (Large privately owned company)
"In general, we try to achieve a full integration, but several exemptions exist, e.g. if the business of the company is completely different from our core business or if the company is very successful on its own (e.g. market leader or technology leader)." (Stock quoted company)
"For the integration of acquired companies no general rule exists. It is completely dependent, what the strategic intention is, thus depending on whether e.g. a sales or production company was bought." (Stock quoted company)

[90] It needs to be mentioned that with the a.m. two criteria only some aspects of the scope of integration are covered. There are various other criteria, e.g. the situation of the target (a successful company will be integrated different compared to a financial unstable, which needs to be restructured).

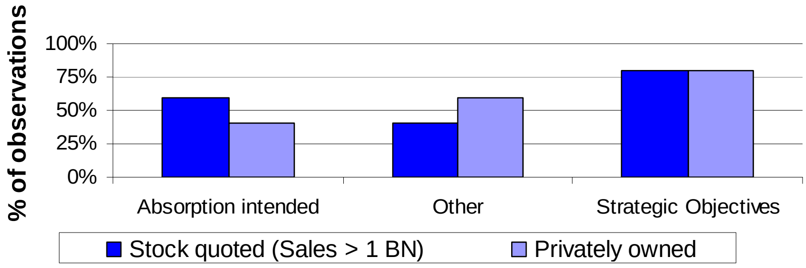


**Figure 33: Scope of integration**

Independent from the scope of integration some non-negotiables exist. In all cases reporting systems according to the standards of the acquirer are implemented. The scope varies from reporting formats according to certain accounting standards up to detailed controlling information and KPI calculations. IT and compliance structures are non-negotiables. Compliance structures could only be observed for large companies, whilst the implementation of IT structures was also noted in smaller companies. Other non-negotiables are individual procedures or tools (e.g. Six Sigma, Kaizen) of the respective companies.

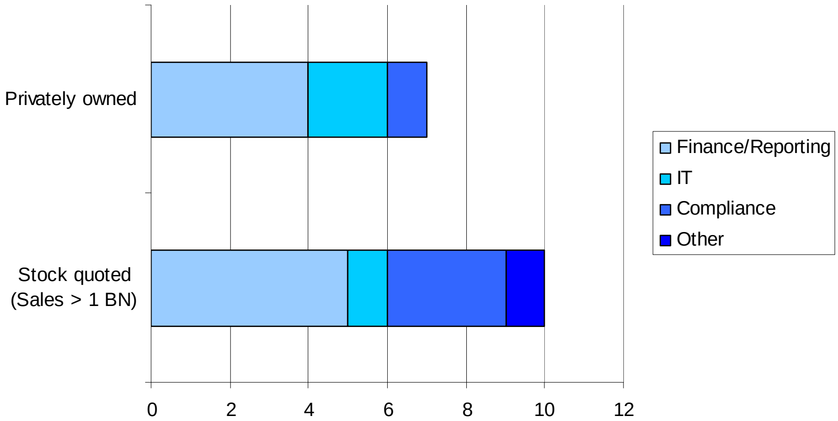


**Figure 34: Non-Negotiables in PMI**

***Conclusions**: Scope of integration is depending on several factors, but mainly on strategic objectives and size of the acquirer[91], other drivers are technological requirements (IT) as well as control and compliance aspects. Non-Negotiables follow the required scope of integration – corporate governance issues, strategic*

[91] There might also be an impact through size *differences* between target and acquirer, which has not been analyzed.

*and group objectives prevail. Companies seem to have learned from past experiences and consequently follow a straight integration policy limited by strategic objectives and flexibility.*

### 4.3.6 Start of the Integration process

The integration does not start after closing, in a more or less structured way. In those cases where a structured PMI process could be observed, it regularly started before closing with the preparation or adaptation of an existing Integration Plan. In the integration plan the contribution of the single operational departments (e.g. Finance, EDP) or alternatively of a project team which needs to be set up for integrating the target is defined.

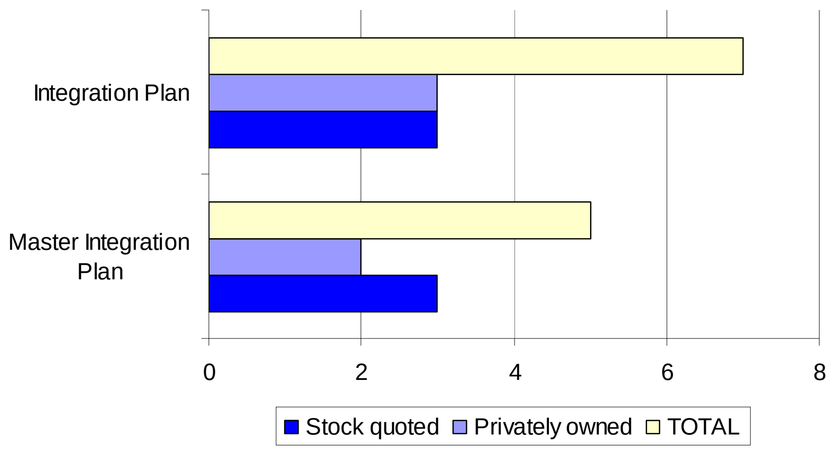


**Figure 35: Existence of Integration Plan**

A master integration plan existed in 50% of all observations, an integration plan in 70% of all cases. In general (50%) the preparation of a detailed integration plan is a task of the integration manager and is started in 50% of all observations before Closing.

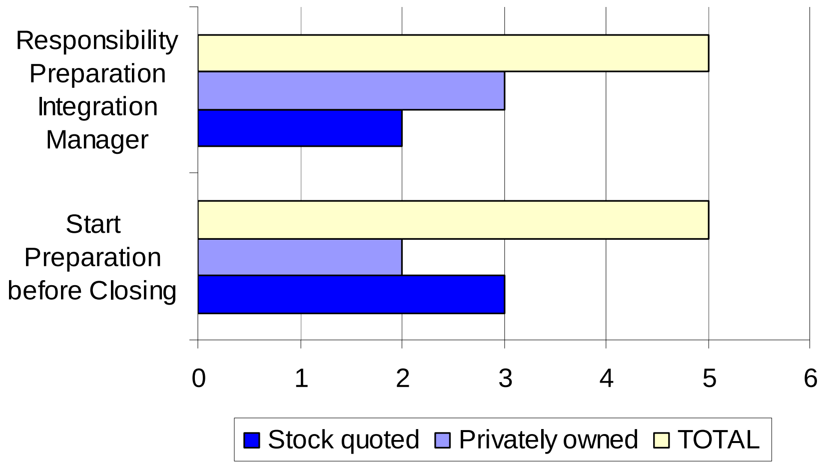


**Figure 36: Responsibility and start Integration Plan**

It is clear that in the integration plan different responsibilities are defined. Objectives vary from company to company. Thus, even although plans exist, responsibilities and starting points are well defined; the effectiveness of such plans needs to be analyzed separately. Following some statements we have heard showing how heterogeneous this subject is treated:

- "With day 1 the integration manager has to formulate the objectives of the integration." *(DAX30 company)*
- "Teams for Due Diligence have prepared the first 100 days' integration plan." *(DAX30 company)*
- "The more important the acquisition is on group level the more intensive is the preparation of the integration plan." *(DAX30 company)*
- "Before signing the master integration concept must have been adapted to the individual situation." *(Large privately owned company)*
- "Awareness building process should be reflected in high level integration plan." *(Large privately owned company)*
- "Something should be done as plan." *(Large privately owned company)*
- "We have a team, preparing the integration plan before closing. The team is defined as soon as the acquisition starts to be concrete." *(Privately owned company)*
- "Integration is done on spotlight basis. This is the difference between acquisitions of large groups and middle-sized companies. As every situation is different teams are independent in their approach." *(Privately owned company)*

In addition we have asked for the ratio of organization and structure on one hand and intuition and flexibility on the other hand in the integration process. Although, due to the heterogeneity this question was deemed to be very difficult to answer, we could obtain the following results:

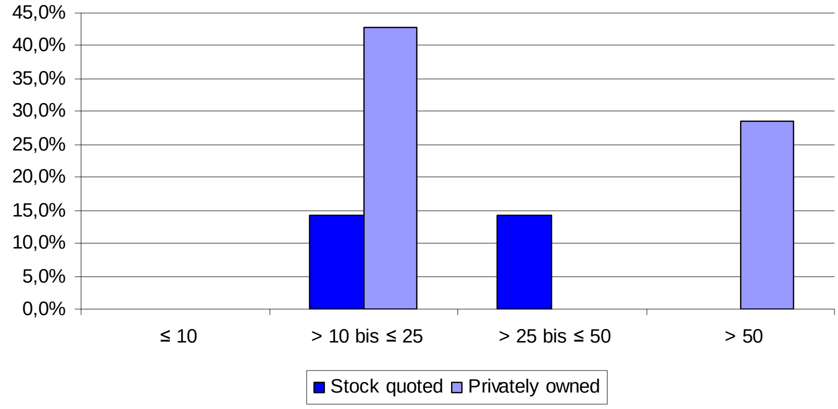


**Figure 37: Percent of process to be organized**

The answers reflect the limitations of an integration plan. Despite detailed planning and standardized approaches the general consensus of the observations is, that an integration process can only be planned up to a maximum of 80%[92]. The rest is challenge and subject to the creativity and capability of the integration management.

***Conclusion**: Although M&A is a standard procedure in business development, the approach is only planned with about 50% structure. To this extent plans exists. Missing structure needs to be replaced by flexibility and inspiration. Thus, consequently, the profile for the integration manager needs to be considered.*

### 4.3.7 The Integration and execution of Integration Plans

After closing the integration needs to be executed. The question is, what are the most important and urgent items, which are the issues to be addressed first and how is the integration performed, when is the integration process finished? To get an impression we have asked two questions:

a. What are the activities of day 1[93] (with day 1 considering activities of highest priority)?
b. Which phases of an ideal PAM process are defined in the company?

[92] This was the highest value mentioned, but the prevailing opinion was a maximum value close to 50%.
[93] To understand it the right way: Day 1 did not mean the real day 1 but comprised the most urgent issues.

Two ways of approaching the integration could be categorized: a more personal approach for family driven businesses as acquirers[94] and a more formal approach for larger companies. A possible explanation might be the intention of family driven acquirers to cooperate and "use" the management of the target company. As it was not mentioned by any of the larger-sized interview partners such trend is deemed to decrease the larger the acquiring company is.

Also, the observations show two main steps in the integration process. The first step is the hedging of the vital functions. During this period regularly activities take place:

- Information of stakeholders (especially customers and staff) and to the general public via media. For this a detailed communication strategy is required, which can be defined in an integration plan.[95]
- Hedging of the financial situation / making sure that the company is able to pay its debt
- Implementation of the most necessary reporting and controlling tools to have control of the actual situation of the company
- Implementation of other important procedures (individual selection, e.g. purchasing).

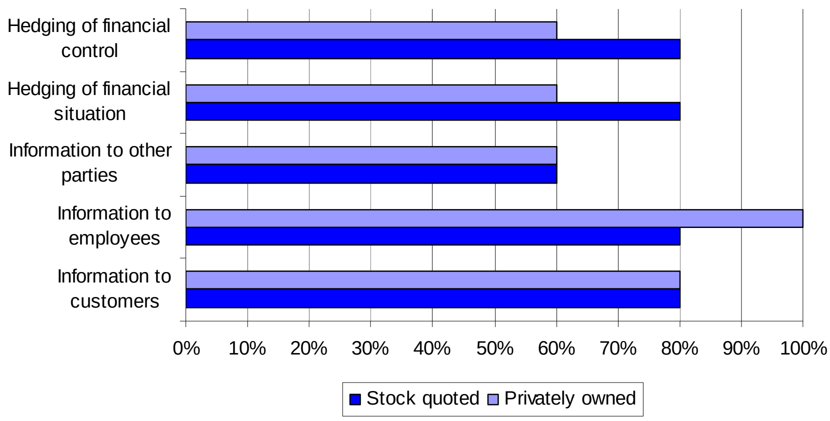


**Figure 38: Measures of step 1 (% of sample)**

[94] „We will deliver the technology and the CEO of the acquired company – they have the better technology than we – should develop the product for world market sales.“ *(Privately owned company)*

[95] „At day 1 the communication to stakeholders takes place. We want to answer questions like: Why was the deal done? What are consequences for the employees? We also want to show presence and have to organize the project teams, which equally represent employees of the acquiring and the target company." *(Large privately owned company)*

"At day 1 we try to communicate to as much employees as possible to make them understand the reason of the deal and possible consequences." *(Privately owned company)*

"Communication strategy is at day 1 of utmost importance. This day customers, employees and other stakeholders, will be informed. The integration manager has a checklist for it." *(DAX30 company)*

"All stakeholders will be informed at day 1. During the following next days we also have integration workshops for new employees to explain, define goals and adjust our original objectives." *(Dax30 company)*

"During day 1 we intend to inform all employees. We also start to establish personal relationships to the important employees." *(Stock quoted company)*

The majority of the interview partners mentioned necessity and method of information to personnel via workshops etc. Implicitly the importance of management integration could be perceived (e.g. statements like: “former owners could not be fully integrated”) but only three interview partners mentioned this, respectively a similar item explicitly as necessary integration of management structures.

Of course, integration of management[96] and integration of management structures[97] are not describing the same subject. Whilst integration of management is about people, the integration of management structures describes decision and competence rules, but the effect of both aspects is similar in the sense, that a management is in place complying with the management structures of the acquirer. Both aspects can lead to serious problems in case management of the target company does not comply with such structures – a behaviour which can be found e.g. at companies with manager-owner structure. Consequently, especially in situations where management and compliance structures are very different particular attention must be paid to this item. Four interview partners also mentioned that the scope of integration is also depending on differences in management and compliance structures combined with strategic objectives which can only be reached by or together with the management and/or key personnel in the target.

The retention and involvement of key personnel was a focus of 70% all interview partners. Although, key personnel differs from industry and strategic orientation of the company they are characterized as people driving business. Thus it is important to have a clear concept and perspective for their future development. The expectations of the acquiring companies are reflected in their denomination of key personnel (e.g. “Entrepreneur on-site”, “the one, who has the contact to the customer”, “managers of core functions”).

The importance of this issue is also confirmed by the early consideration of the subject which is regularly done before closing, sometimes even before sending out a binding offer. Depending on the size of the target personal interviews or management audits are performed during the Due Diligence process. To keep the key personnel various benefits are offered, like incentive schemes, retention packages etc.

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[96] Integration of management is related to people rather than to structures.

[97] Integration of management structures are related to the overall picture how the new company will be structured. This comprises a complete new discussion about management and governance structures affecting both, acquirer and target.

Where it was mentioned, this first step or wave was expected to take about 100 days and was followed by a second wave of integration measures. These measures addressed operational and more individual issues of the target. Thus processes, systems and organization of the target where subject to integration measures.

For the integration process only in 40% of all cases a defined end point could be observed. At the latest the integration had to be finalized one year after closing. But also a much earlier termination – 100 days after closing, alternatively after successful implementation of the financial systems – was mentioned.

**Conclusion**: *In the integration process three milestones could be recognized: Day 1 operations, comprising all sorts of communication to stakeholders, but focusing on communication to key people and employees. Common is the termination or status check of the integration after 100 days and, completion of the termination after a maximum of one year[98]. The integration is focusing first on the stabilization and retention of key people and later on the development of business.*

### 4.4 Key Success Factors

Finally all interview partners were asked what are considered to be key success and key failure factors for Post Acquisition management from their point of view. The opposite of failure factors mentioned were considered to be success factors. In Annex 1 all answers and their transition into key success factors are listed.

The answers clustered into success factor categories, which are related to the descriptions given in this chapter 4. The following categories were determined:

(a) Fit of acquisition: Covers all aspects of objectives considered prior to the acquisition. In particular aspects of selection and evaluation of target are considered; strategic, cultural, organizational and operational fit are playing major roles. No process-related items are taken into account.

(b) Organization of M&A process: Includes process-related aspects of the M&A process, especially involvement of parties and transfer of information and responsibilities.

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[98] Only in two cases we could see different time horizons:

- in one DAX30 company the acquisition success was monitored after two years, although the most important evaluation was done after one year
- in a privately owned company the statement was "…we can see the acquisition success after 2-3 years.".

(c) Preparation of acquisition: Considers aspects in the preparation of the acquisition which may influence the PMI if not appropriately considered.
(d) Competence of Integration Manager: Items describing requirements to and character of the integration manager as well as his situation, responsibilities and authorizations in the integration process.
(e) Competence of Integration Team: Same description as given in (d) applicable to the Integration Team.
(f) Integration Planning: Factors under control of management for the preparation of the integration process.
(g) Scope of Integration: Target of the integration process – to be separated from targets of acquisition.
(h) Consistency in integration realization: Straight orientation of integration process; reflects how the process is subject to changes due to management behaviour/management decisions during the process. Consistency in integration realization is synonymous to "Discipline for strategy".
(i) Motivation and open communication: All items concerning motivation of people or communication with staff or other stakeholders (e.g. customers, suppliers)
(j) Integration time frame: Factors describing time aspects of the integration.

With these categories given the following success factors were obtained[99]:

| **Stock quoted** | |
|---|---|
| Fit of acquisition: | • Clear strategic fit (planned scenario): do corporate cultures fit (cultural DD to be performed)<br>• Target-setting of acquisition<br>• Strategic fit of target to get sustainable growth |
| Organization of M&A Process | • Involvement of Integration Manager (best already in DD) |
| Preparation of acquisition | • Success factors to be independent from fairness of players on selling side<br>• Fairness in transition between seller and acquirer - no traps (e.g. negative information, bad mood, competition). |
| Competence of | • Power of Integration Manager (Contacts to / network |

[99] The statements are revised according to the transition table in annex 1.

| | |
|---|---|
| Integration Manager | with steering committee and management)<br>• Integration Manager needs to be equipped with necessary resources |
| Competence of Integration Team | • Experienced and flexible project management<br>• Well-rehearsed team<br>• Appropriate number of people involved |
| Integration planning | • Preparation of integration |
| Scope of integration | • Flexible systems and organizational structures<br>• Preparation of integration independent from size and importance of target for the acquirer |
| Consistency in integration realization | • Consistency of integration realisation<br>• Stop of acquisition/integration, when deal breaker is recognized<br>• Factual Integration is done as planned in time |
| Motivation and open communication | • Consideration of emotional factors in medium-sized companies<br>• Motivation of people involved<br>• Information to people not only about objectives but also about procedure / way to reach these objectives.<br>• Communication to stakeholders<br>• Involvement of people Clear communication (structures) to stakeholders<br>• Retention of customers<br>• Clear communication (structures) to stakeholders |
| Integration time frame | • Appropriate time schedule<br>• Time available |
| **Privately owned** | |
| Fit of acquisition | • Selection and analyse of target<br>• Avoid emotional acquisition decisions<br>• How does the business model of the target fit to the existing business of the acquirer |
| Organization of M&A Process | • Quick transfer of full responsibility from M&A department to operational management |

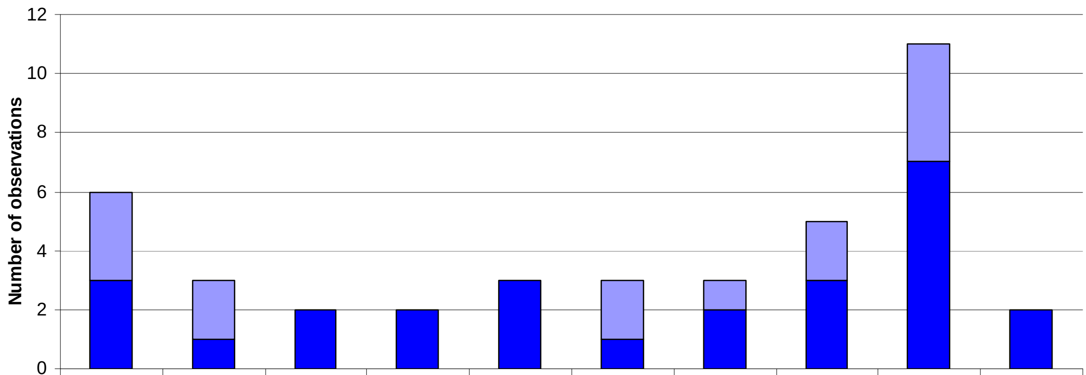
| | |
|---|---|
| | • Structured process organization to ensure proper communication. All people need to have the same level of information |
| Integration planning | • Preparation of a Post Merger-Integration plan in advance<br>• Transparency / Information to operational management regarding objectives (explanation of valuation) |
| Scope of integration | • Alignment of integration process and business model |
| Consistency in integration realization | • Consistent behaviour in / consistent realization of integration<br>• Consistency in decision making and communication. Decisions need to be made and discussed with management to have a high acceptance and a common approach. Once decisions are made they should not be easily changed, to be reliable and trustworthy for people. |
| Motivation and open communication | • Ensure alternatives for key personnel or keep it (SMEs are more dependent on single people, thus this item is focused)<br>• Early involvement of operational management<br>• Transparent communication: people need to be explained and understand what happened, why it happened and what will be in future.<br>• Intensive communication on all levels (show presence, invite and talk to people, listen to rumors). |

**Table 4: Key Success factors grouped by category**

Adding up the number of observations of the success factors mentioned returns as an overall picture three main factors at first sight: *Fit of acquisition*, *Consistency of integration realization* and *Motivation and open communication* – all with four or more observations. The *Fit of acquisition* has another quality than the other factors as it is a pre-acquisition issue.

In a second step the observations for *Competence of Integration Manager* and *Competence of Integration Team* can be added up. The thought behind is the fact that integration manager and integration team have the same mission and in those cases where an integration manager is in place the team selection is done or at least highly influenced by him. In our first category (Stock quoted (Sales > 1 BN)) the key success factors are *Motivation and open communication (11)*[100], *Competence of Integration Manager and Integration Team (5)*, *Consistency of integration realization (3)*.

These factors are the main factors overall and especially for our Category 1. For privately owned companies (category 3) a slightly different selection applies. Same as in category 1 *Strategic fit of acquisition* and *Motivation and open communication* play a major role. But much more than the integration manager and and integration team the *Integration planning* seems to be a problem. This observation is in line with the already stated more people-orientated business in privately owned companies.




| | Fit of acquisition | Organization of M&A Process | Preparation of acquisition | Competence of Integration Manager | Competence of Integration Team | Integration planning | Scope of integration | Consistency in integration realization | Motivation and open communicatio | Integration time frame |
|---|---|---|---|---|---|---|---|---|---|---|
| Privately owned | 3 | 2 | | | | 2 | 1 | 2 | 4 | |
| Stock quoted | 3 | 1 | 2 | 2 | 3 | 1 | 2 | 3 | 7 | 2 |

**Figure 39: Number of observed success factors grouped by category**[101]

## 5. Results

We have summarized the results of several studies and publications regarding key success factors in post acquisition management. We also have described such factors according to our small survey of a non-representative sample. During our conversations with interview partners we could see, that most of our interview partners are aware of key success factors but favour different sets of factors, based on the company itself (e.g. publicly or privately owned, size etc.) and the specific situation within the company and their acquisition approach. Nevertheless the

[100] In brackets: Number of observations
[101] Multiple answers were allowed.

success ratios mentioned show the necessity for improvement. Thus the combination of success factors based on studies, and their application in business practice based on the respective prerequisites of the acquisition situation seem to be a key for improvement of merger success. It is necessary to mention that success factors are complementary, meaning that missing success factors can not be fully replaced by others.

The first item mentioned by our interview partners as success factor was "*Fit of acquisition*". This item comprised aspects like 'strategic fit of the target', 'missing evaluation of the business model of the target and its fit to the acquirer's business', 'missing target setting for acquisition' but also 'missing due diligence in specific areas' and a warning to avoid emotional behaviour or deals. Being a very basic pre-merger issue the evaluation of the fit in all areas (strategic, cultural, organizational and operational) has to be seen as prerequisite for a successful integration and considered by and in the integration management, as the development of a common future depends very much on it[102]. In other words: if the target does not fulfil the intended profile, the deal should not be done, respectively the integration will be much more difficult as a bunch of problems will be faced. Obviously, this is not always taken into consideration as interviewees mention this being one of the main problems of acquisitions. The 'Opportunistic acquisition behaviour. Deals get their strategic legitimating "post closing"' described by Droege & Comp.[103] seems to show its impact here. It is easy to imagine, that in these cases the basis for the creation of a common vision and the setting of long-term targets is difficult because motives and rationale of the deal need to be defined first to create a picture for the future. Also the 'Definition of long-term performance objectives' mentioned in figure 17 can be seen the way that an appropriate evaluation is the prerequisite for long-term target setting.

Although, no evidence could be found for the criticism at the performance of due diligence as it is stated by Roland Berger[104] it is remarkable, that due diligences in our sample are mainly performed in the areas Financial, Legal and IT. Cultural due diligence was required during the interviews and Deloitte[105] has shown that differences in success are based on due diligences in special areas. Scope and depth for both, pre- and post-acquisition due diligence need to be considered to

[102] From one DAX30 company we heard: "That it was an exceptional case, which we only experienced once, that an acquisition was stopped because both management teams did not believe in the capability of the other party to integrate".
[103] Rigall, Röper, (Droege & Comp.) (2007)
[104] See: figure 11
[105] See: figure 22

avoid intransparency regarding the target (Myth No. 3 in table 2 describes such situation with the statement: “We know exactly, what we have bought”).
An additional threat is given through unfair players on the selling side, as mentioned as success factor grouped in ‘*Preparation of acquisition*’. Also this is a pre-merger aspect influencing the post acquisition situation. The toolbox for the avoidance of such problems is given through the deal structuring with due diligence aspects being one part of it.

The next group of items qualifying as success factors concern the more procedural aspects of the integration. The items: ‘*Organization of M&A process*’ and ‘*Integration planning*’ belong to this group. Both, these items seem to be of higher importance in privately owned rather than in publicly traded companies, with the latter having only half that many quotations than privately owned companies. Privately owned companies have to consider more emotional factors as already mentioned. Thus, it can be difficult to set up an integration plan or structure. Organization of M&A process is about the integration of process members. Details are the ‘early involvement of the integration manager’, ‘quick transfer of full responsibility from M&A department to operational management’ and the ‘requirement of having all people at the same level of information by having a structured communication process’. Early involvement of integration managers respectively the people responsible for the integration has a broad acceptance in our sample and is also recommended by Gerds & Schewe by claiming to start the integration project before closing and as soon as possible. It is furthermore a success factor described for GE Capital[106]. The need for having structured communication concerns internal as well as external communication. This will be shown later on. The second item ‘*Integration planning*’ comprises the ‘preparation of an appropriate planning and its communication’. Having a master plan which has to be adapted to the specific situation can be obtained in several sources already mentioned[107]. Roland Berger even mentioned it as “PMI Basics”[108]. The plan must be communicated to everybody concerned to get a broad acceptance for it and having the integration team arguing consistently.
These two factors are followed by the Scope of integration, describing the importance of the content of the integration plan and the purpose of its preparation in relation to the scope of integration. The scope of integration is a trade-off between

[106] See: p. 45
[107] See for example: figure 13
[108] See: figure 14

group requirements and necessary flexibility. Groups tend to have a higher degree of integration following group requirements. This can lead to a destruction of synergies and thus, harming the merger intention by the integration process. For example problems might be faced that, integrating a small but technologically leading company is operationally profitable, but profits are caught away through administrative requirements. Even worse are situations where people in an acquired company are leaving due to the destruction of the original business model or frustration about their new work environment. Thus scope of integration bears many consequences having their expression in several measures, like content of the plan, detailing the plan during the integration, involvement of key personnel from the target etc. This is one of the major tasks of the integration manager and his team: to mediate between acquirer and target alongside the realization of synergies and consideration of key value drivers.

Integration managers and their teams are a phenomenon we encountered only at publicly traded companies. They are described by the two success factors '*Competence of Integration Manager*' and '*Competence of Integration Team*'. We have seen, that a very small portion of the process is subject to organization in publicly owned companies[109], which means in turn that the integration manager and his team have a major role not only in executing the plan but also in developing the details of the plan. For doing this he needs 100% commitment of the executive board, to have its support. This is the confirmation of what was mentioned already in studies and literature. Gerds & Schewe, stating that top performers trust more in people than in plans, claim the best people for the integration project and at least 50% of their time, Roland Berger developed a detailed profile for the integration manager, Droege & Comp. claim 100% of the time for the integration project[110]. Feldman & Spratt expect a detailed steering through the integration manager to avoid "Obsessive List Making" and small efficient teams for the integration. Harvard Business Review has shown a detailed profile for the integration manager. This person has to define steps and priorities. Summarizing, it can be said that the selection of the integration manager and his team is one of the most important decisions in PMI.

Motivation and communication is one of the tasks of an integration manager but also of top management. Communication takes place on three levels: stakeholders, integration team, and acquirer.  Communication has to lead to results like: retention

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[109] See: figure 37
[110] See: p. 36

of customers, retention of key people, motivation of people etc. It is the most important key success factor for both privately and publicly held companies and it can not be overemphasized having a look at the recommendations given in studies and literature. Thus, the recommendation given by Feldman & Spratt 'To flood information channels with reasonable information' and 'avoidance of senseless communication' can be taken as example.

The '*Integration time frame*' is one of the success factors also discussed in literature. Already in our small sample we have seen integration time frames between 100 days and 3 years. The main expression of this success factor is an appropriate time frame, by neither overloading the integration nor the target with activities to show an integration success either collapsing or leaving the real synergies aside.

This, finally, leads to the success factor '*Consistency in integration realization*'. This term is used for two aspects: consistency in merger motives, meaning that the acquisition is stopped as soon as a deal breaker is met, but also consistency in integration, without deviations for short-term effects, new strategic aspects etc. With three quotations by publicly owned and two quotations by privately owned companies, covering 50% of our sample, it has major importance for deal success.

On an overall picture given by our small sample it can be stated that privately owned companies give more attention to the preparation of the deal. '*Fit of acquisition*', '*Organization of process*', '*Integration planning*' and '*Motivation and open communication*' are considered to be the main success factors, whereas publicly owned companies consider '*Fit of acquisition*', '*Competence of integration manager*', '*Competence of integration team*', '*Scope of integration*', '*Motivation and open communication*' and '*Consistency in integration realization*' as prevailing success factors. Hence, in privately owned companies' organizational and procedural aspects and in publicly traded companies personal and communication factors prevail.

But, if all this known, why are some companies successful in acquisitions and others not? As mentioned, these factors are known and do not require a highly sophisticated approach for resolution, so it can be assumed that missing use of key success factors is more an execution rather than an awareness problem.

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**Appendix 1: Transition of failure factors stated into success factors**

| | Success | Failure (Opposite of success factors) | Translation Failure into Success Factor |
|---|---|---|---|
| | Involvement of Integration Manager (best already in DD) | Demotivation of people involved | Motivation of people involved |
| | Power of Integration Manager (Contacts to / network with steering committe and management) | | |
| | Integration Manager needs to be equipped with necessary resources | People are informed about objectives but not about procedure / way to reach these objectives. | Information to people not only about objectives but **also** about procedure / way to reach these objectives. |
| | Time available | Factual Integration is partly delayed. | Factual Integration is done as planned in time |
| | Consistency of integration realisation | Despite recognition of dealbreaker continue with acquisition/integration | Stop of acquisition/integration, when dealbreaker is recognized |
| **Stock quoted** | Well-rehearsed team | Too many people involved | Appropriate number of people involved |
| | Appropriate time schedule | Rigid systems and organizational structures | Flexible systems and organizational structures |
| | Clear strategic fit (planned scenario) - do corporate cultures fit (cultural DD to be performed) | Success factors depending on fairness of players on selling side. | Success factors to be independent from fairness of players on selling side. |
| | Experienced and flexible project management | Prepartion of integration depends on size and importance of target for the acquirer (the higher the better) | Preparation of integration independent from size and importance of target for the acquirer |
| | Consideration of emotional factors in medium-sized companies | | |
| | Communication to stakeholders | | |

| | | | |
|---|---|---|---|
| **Privately owned** | Preparation of integration | | |
| | Target-setting of acquisition | | |
| | Involvement of people | | |
| | Fairness in transition between seller and acquirer - no traps (e.g. negative information, bad mood, competition) | | |
| | Clear communication (structures) to stakeholders. | | |
| | Strategic fit of target to get sustainable growth | | |
| | Retention of customers | | |
| | Selection and analyse of target | Loss of key personnel (SMEs are more dependent on single people, thus this item is focused) | Ensure alternatives for key personnel or keep it (SMEs are more dependent on single people, thus this item is focused) |
| | Preparation of a Post Merger-Integration plan in advance | Emotional acquisition decisions | Avoid emotional acquisition decisions |
| | Alignment of integration process and business model | Non-consistent behaviour in / non-consistent realization of integration | Consistent behaviour in / consistent realization of integration |
| | Early involvement of operational management | | |
| | Transparent communication: people need to be explained and understand what happened, why it happened and what will be in future. | | |
| | Transparency / Information to operational management regarding objectives (explanation of valuation) | | |

Structured process organization to ensure proper communication. All people need to have the same level of information

Consistency in decision making and communication. Decisions need to be made and discussed with management to have a high acceptance and a common approach. Once decisions are made they should not be easily changed, to be reliable and trustworthy for people.

How does the business model of the target fit to the existing business of the acquirer

Intensive communication on all levels (show presence, invite and talk to people, listen to rumors).

Quick transfer of full responsibility from M&A department to operational management