Post-merger integration techniques
Integrative Capacity

Abstract

This paper sets out to outline a process model with which to outline and conceptualize integration of acquired companies. A framework is built on already established theories to determine how successful they have been, in turn examining the human integration, the task integration, the use of centers of excellence and, the speed of integration. The main contribution to the literature in this paper is the development of the concept integrative capacity, which outlines an organizations ability to integrate. The process model and the newly coined concept are subjected to two case studies.
It is argued that a company's integrative capacity is dependent on three distinct processes, namely learning from previous experiences, planning and implementing a strategy for new acquisitions, and the execution of these plans which in turn serves as a feedback loop. Finally, the importance of implementing structures and institutions in the company to undertake the development of integrative capacity is emphasized.

Keywords: *Acquisitions and mergers, post merger integration, integration techniques, task integration, human integration, speed of integration, high technology manufacturing firms, integrative capacity.*

1. Introduction

Recent development in international management concerns merger operations. They have certainly existed for a long time. Capron (1995) dates the occurrence of the first mergers in the late 19th century, but they have increased at a considerably faster rate in the last ten years (their number increased by 461% between 1990 and 2000). In addition, practitioners and consultants point out their low rate of success (AT Kearney, 1999). Considering this paradoxical observation, and considering the importance of the competence concept, it appears opportune to question the possibility of developing a specific competence within the organization for carrying out mergers and acquisitions.

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It is argued that a company's integrative capacity is dependent on three distinct processes, namely learning from previous experiences, planning and implementing a strategy for new acquisitions, and the execution of these plans which in turn serves as a feedback loop. Finally, the importance of implementing structures and institutions in the company to undertake the development of integrative capacity is emphasized.

Many researches have dealt with the process of integration in a company (see for instance Bower, 2001; Croyle and Kager, 2001; Gammelgaard, 2002), but not many have paid sufficient attention to the ability of the acquirer to carry out the recommendations. The main research question addressed in this paper is ***what is an Integrative Capacity and how does it develop in companies?***

The following sub questions asked are used as a guideline throughout the empirical analysis:

How do successful companies decide on the choice of integration techniques?

Have the case companies changed their approach over time? And finally, *which degree of 'Integrative capacity' have company A and company B exhibited?*

This paper will proceeds first with a review of the literature, based on the theories of post-merger integration techniques. The following section will describe the research focus and approach. The empirical finding's of the case studies will be presented and then concluded.

2. Post – merger integration techniques … -LITERATURE REVIEW

Companies today need to be fast growing, efficient, profitable, flexible, adaptable, future-ready and have a dominant market position. Without these qualities, firms believe that it is virtually impossible to be competitive in today's global economy. In some industries such as insurance or banking, firms may move into new markets. In others such as pharmaceuticals or software technology, firms may work with smaller firms that have developed or are developing new products that they can manufacture and/or distribute more efficiently, while other firms focus on their own internal growth, leadership and development. Regardless of industry, however, it appears that it has become all but impossible in our global environment for firms to compete with others without growing and expanding through deals that result in mergers or acquisitions (Lucenko, 2000; Galpin and Hemdon, 1999; Deogun and Scannell, 1998, 2001).

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2.1 Dimensions of post merger integration techniques ….

X.x Integrative capacity

After having gone through the four previous integration techniques that have to be completed when going through an M&A, the focus will now turn to a dimension which deserves more attention in the literature on post-merger integration: the ability of the acquiring company to integrate the acquisition. Haspeslagh and Jemison (1991) touch upon the capability to integrate but do not develop the idea further. Likewise, many authors have touched on parts of the issue, such as codifying previous experience (Zollo and Singh, 2004), involving line management early (Rovit and Lemire, 2003), appointing a specialized integration manager (Ashkenas and Francis, 2000), and how to ensure a focus on the corporate customers (Gammelgaard, 2002). However, there is a need for a compilation of this dispersed set of thoughts, which are divided into two separate, generic points. Firstly, learn from your experience and secondly, plan and execute acquisitions.

X.x.x Learning from previous experience

Despite the large global M&A activity, only few companies execute merger activity well consistently. In the words of Joseph L. Bower (2001): "We know surprisingly little about mergers and acquisitions, despite the buckets of ink spilled on the topic". Worse yet is that even the companies that go through mergers, and therefore should have first – hand experience, do not retain the knowledge they need for them to be able to execute well the next time around. Zollo and Singh (2004) found that experience accumulation from previous mergers in general did not influence future performance. However, codified knowledge about previous experiences did influence the performance (more at higher levels of integration), which is interesting. It means, which may not be surprising, that organizational memory can be retained by writing it down. Rovit and Lemire (2003) reached similar results in their research. The most important points from their work in this context were twofold. Firstly, they argued that the process of acquiring companies must be institutionalized, which goes very well in line with the argument of codification previously made. There need to be processes in line that help store the tacit knowledge that comes with the codified knowledge. Additionally, they argued for building a standing M&A team that can continuously be sent to integrate newly acquired units. Similary to the point of codification (Zollo and Singh, 2004), establishing such a permanent M&A team will enable the retention of the organizational knowledge in the working memory of the company.

Finally, it has been argued that learning from subsidiaries is dependent on the richness of transmission channels, the motivational disposition to acquire knowledge, and the capacity to absorb incoming knowledge (Gupta and Govindarajan, 2000). For us, those findings go well with the building of a permanent M&A team. A team that will be able to utilize the knowledge from outside the boundaries of the headquarters organization, be it from newly acquired units with their own M&A experience, from consultants or academia. A dedicated team of managers will simultaneously provide rich transmission channels, have the motivation to learn, and the capacity to absorb the knowledge. Additionally, such a team must be multi-disciplinary and multi-functional to yield the best resultys (Biljsma-Frankema, 2004). That entails that the team members must come from a cross-section of departments, including R&D and marketing, for instance.

X.x.x Plan and execute acquisitions

Firstly, to utilize the M&A institutions proposed previously, the company must acquire often and continuously. Those companies that acquire through boom and bust periods with many smaller acquisitions and a few big, perform better consistently over time compared to its peers that only acquires occasionally or never (Rovit and Lemire, 2003). One explanation of why that is the case could be that the organization retains the experience in its working memory. As part of acquiring often and continuously, companies must screen many targets that it does not acquire (Aiello and Watkins, 2000). The result will not only be good performance of the units eventually acquired, but will also provide the company with a very good way of assessing its own core competences and needs. By knowing what is in the market they will understand their own relative strength compared to what else is in the market (Rigby and Zook, 2002).
Secondly, an integration manager should be appointed from the acquirer's organization that can be responsible for the process. Depending on the type of acquisition and the following level of integration, the role may be a little different. However, in any case it includes determining the appropriate speed of integration, facilitating task integration and ensuring the correct level of human integration (Ashkenas and Francis, 2000). To be able to lift this task, the person must be a high ranking manager before the acquisition, to be able to carry the decisions through and to communicate the decisions credibly (Fubini et al. 2006). Finally, to begin with – due diligence must be undertaken vehemently. This must be done pre-acquisition, of curse, but a post-merger due diligence is also warranted. 'Clean teams', which are teams of employees from either company that can help spell out an integration plan in their respective functional areas, can be a way of facilitating this knowledge gathering (Burgelman and McKinney, 2006). The reason for the need for due diligence is a matter of having a platform to make decisions on. Simply knowing what the situation is before opting to implement one solution over the other is of great value.

X.x.x.x Summary of the Integrative capacity

Naturally, the lessons learned by previous acquisitions are those that must feed into the planning and execution of the next. As such, they provide the feedback loops for each other.

FIGURE: Integrative capacity feedback loop.

Learning from previous experience

- Codify experience
- Institutionalise the acquisition of companies
- Facilitate knowledge transfer from acquired units.
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Plan and execute continuously

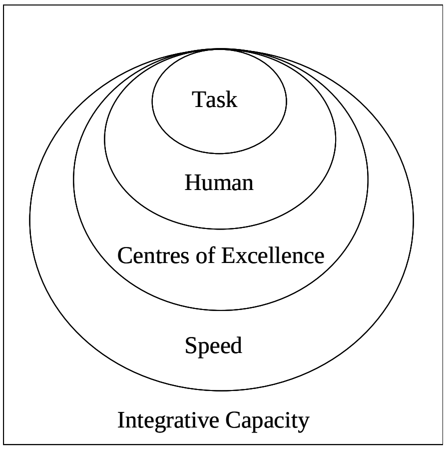
- Acquire companies often and continuously
- Utilise an integration manager
- Undertaken fierce due diligence, also post-acquisition.

X.x Theoretical conclusion

?.? Model for Integration

In the following, a process model constructed from the arguments above is presented. It outlines which steps companies must consider after having considered the integration approach to undertake. Hence, the need for autonomy and strategic interdependence has been determined, and the process model then describes which analysis to conduct and which steps to take when determining how to integrate the acquisition.

FIGURE: Process model for post-merger integration



As argued above, the different points of the model are highly interrelated. Task integration can only be undertaken through the use of human integration, which in turn is dependent on the level of task integration. Deciding upon whether to establish centres of excellence is determined by the specific combination of task and human integration that can be implemented. Speed of integration must be determined based on the intended integration efforts. Finally, the decisions of how to proceed with the integration are dependent of the acquirer having the necessary of capabilities of doing so. In other words, whether they possess integrative capacity: a term which has not been researched sufficiently.

With regards to the use of the model, the decision of how to conduct the task integration is dependent on the internal and external relatedness of the acquirer and the target, the acquirer's need for learning from the target, and the acquirer's ability to sustain leadership over the integration process.

Human integration is highly dependent on the knowledge flows in the company, as argued above. These flows of knowledge are both the implementation of the acquirer's procedures and knowledge into the target as well as transmission of the target's specific knowledge to the acquirer. Additionally, the human integration is framed by and understanding and reconciliation of the organizational differences between the acquirer and target.

The establishment of centres of excellence is dependent on the compatibility between the acquirer and the target and the resulting level of learning that can take place between the two. Additionally, the level of separation between the units must be considered to gauge whether it is possible to sustain a multi-centered firm or it has to be dependent on one headquarters with reporting subsidiaries. Finally, mutual learning must be ensured so that the dispersed centres of excellence are able to exploit the knowledge from others. After having decided upon these three areas of integration, it must then be considered how fast the integration will proceed. The speed of integration is dependent on whether the target's resources are of a hard or soft nature, the internal and external relatedness between the target and acquirer, and whether the acquirer is able to provide leadership of the process.

TABLE: Steps of process model

1	Task Integration	Determine the internal and external relatedness, the need for learning from the acquired unit, and the availability of management talent.
2	Human Integration	Control the knowledge flows, facilitate knowledge transmission from target, and understand the organisational differences.
3	Centres of Excellence	Implement measures for learning, sustain ability to exploit target's knowledge stock, and optimise mutual learning.
4	Speed of Integration	Assess the nature of the acquired resources, rate the internal and external relatedness, and gauge the availability of management resources.

Source: XXXXX

Finally, these steps of analysis are framed by the inherent qualities of the acquiring company. It is argued that the integrative capacity of the company is dependent on its ability to learn from its past experiences and to plan and execute based on these lessons.

Methodological choices

The empirical evidence for this paper is drawn from two case studies. Case study research was adopted as the method here, since it permits in-depth understanding and appreciation of the dynamics present within a single setting and is especially suitable for meagerly explored phenomena such as post-acquisition integration and "how?" type research questions. Furthermore, case study is a suitable method for examining context-bound phenomena in situations where the boundaries between the phenomenon and the context are blurred, just as in the natural, real-world setting. Post-merger integration is inherently embedded in the overall merger context and thus the case study approach is suitable for studying it. The case study approach permits a flexible and iterative approach where the researcher interacts with a problem domain and along the way gets a more profound understanding. In our quest of extending existing theories and exploring their match and suitability for the post-merger context this flexibility is vital.

The cases in the study were selected for their similarities as well as their differences. To ensure relevance, the substantive area issued (integration after an acquisition) was kept similar. Furthermore, in both cases, the business environment was in a state of dramatic shift simultaneous to the post-merger integration processes. Differences were sought in organizational and acquisition-related dimensions, such as industry, integration speed, structure, and culture, in order to generate a more transferable theory. These differences should allow for useful contrasts to be made during data analysis, which should challenge and elaborate the emerging framework.

X.x The case study

X.x.x Case 1

Case 1 describes the high technology manufacturing firm A, which traces its history to 1977, when two engineers in an University began to examine the possibility of developing scales to effectively control production in fish processing plants. The first prototype appeared in 1978. Firm A was established in 1983 and has since developed into a world leader in developing and manufacturing high-tech food-processing equipment. Today, firm A manufactures equipment for the protein industries which includes fish, meat and poultry processing industries. The industry has not been investigated in-depth and the few industry reports that exist tend to mix the industry with manufacturing of food processing equipment in general or with non-protein food processing equipment, which can be used for instance for vegetable processing or ice cream making. The reason for the low market knowledge is that the market is highly fragmented with many regional producers but few that manage to gain a large market share. Most of those companies were founded by entrepreneurs in the time period between 1965 and 1985 due to a breakthrough in the technology during that time. In 1997, firm A acquired Carnitech A/S (CT) and by 1998 had established six foreign subsidiaries. In 2002, firms A employees numbered more than 780, of which 494 were located outside of Iceland. By 2006, Firms A group, defined as "Partners in Processing" and consisting of Firm A, CT and AEW, had 16 subsidiaries in 14 countries and a global network of over 50 agents and distributors. The group has 2000 employees. In 2006, firm A announced its five year plan, which is to become a leading global manufacturer of food processing equipment and to triple its annual revenues over the next 3-5 years.

X.x.x Case 2

Case 2 describes the high technology generic pharmaceutical firm B, which was originally founded in 1956. Back then, it was a purchasing alliance by pharmacists. A few years later, it began production of its own pharmaceuticals for the domestic market. In 1981, firm B founded another company to manufacture registered pharmaceutical products. A decade later the ties between those two companies were served because of conflict of interest, only to merge again in 2002. At that time, the advance on foreign markets had already begun with firm's B acquisition of Balkanpharma (BP??) in 1999. This deal was a major milestone in Icelandic business history and laid a foreground for what was coming in other industries.

Firms B expansion process has been both aggressive and fast. For the last decade, total sales have grown intensely with multiple acquisitions and market value has grown even faster. Today, firms B is one of the world's leading players in the field of high-quality generic pharmaceuticals. It is among the world's five largest companies in the industry and shows no intentions of slowing down. Firm B is headquartered in Iceland, has 10.000 employees operating in over 30 countries around the globe.

The information also used in this study are part of a data collection in one of the authors Ph.D process. Those includes the year of establishment: investments undertaken:

investment year, country and industry: and finally the overall purpose of these investments. The factors that motivated those companies to internationalize was also investigated. Those data were sent to the CEOs of the case companies they were asked to confirm the information about their companies

X. Empirical findings

In this section, we present the empirical findings related to the integration techniques…. From cases 1 and 2.

X.x Findings case 1

Our empirical findings from Case 1 show……

X.x Findings case 2

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X. Conclusions

X. References

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