

MASTER

Post merger integration on a business activity level an exploratory study

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Award date:
2011

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Amsterdam, February 23rd 2011

**Post Merger Integration on a
Business Activity level:
an exploratory study**

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in partial fulfilment of the requirements for the degree of

Master of Science

in Operations Management and Logistics

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Series Master Theses Operations Management and Logistics

Subject headings: Post Merger Integration, M&A, Acquisition, Operational, Business Activities, Exploratory, Case Studies, Moment, Degree, Conceptual Model, PwC

Abstract

With trillions of dollars involved in mergers and acquisitions yearly, the success factor of M&As is of great importance. This often all comes down to the execution of the post merger integration process, where the synergies have to be realized. In literature, little is known about what goes on during the PMI process. In this exploratory study it is therefore examined what operational integration is initially planned and why, how these plans change and what causes this change. Six case studies are conducted on recent mergers and acquisitions supported by PwC Transaction Services. Data is gathered from professionals using interviews. In the report, an overview is provided of the integration of business activities on the dimensions of time and degree of integration. From the findings it can be concluded that integration plans are subject to a number of influences, regarding *what business activity* is integrated *at what moment in time*, and *to what extent*. The influences found to be most important are the M&A deal driver, the business activity itself, the industry sector, the desired quality level of the activity and the question whether the acquired firm used to be a part of a larger company. Furthermore, insights are given in the changes in integration plans. Among other reasons the integration of IT systems, unrest among employees and external market conditions can cause changes in the moment and degree of integration. A tool is provided to cope with possible influences on the decisions of, or changes in the integration plan. However, since the findings are based on qualitative information, and are not collectively exhaustive, the tool cannot be relied on without extended research on the subject. Statistical studies are recommended for future research to overcome part of these limitations.

Preface

This report is the result of my graduation project in completion of my Master of Science program Operations Management and Logistics. The project has been carried out at the PwC Transaction Services department in Amsterdam, a group of great professionals who advise and support companies that have engaged in M&A activity in the post merger integration process.

In recent years I have developed a special interest in mergers and acquisitions. For me, M&A is a fine example of what the curriculum of Industrial Engineering and Management Sciences embodies; a complex and highly relevant business situation where all fields of research – ranging from management skills to IT architecture, logistics, organizational science, human resource management and process modeling – have to come together to make the deal succeed. Regrettably, only little attention was given to the M&A phenomenon in courses.

I am therefore very thankful that my supervisor dr. ir. Remco Dijkman has given me the chance to conduct this unique research and that he has been a good mentor and help along the way. In addition I would like to thank all the other people who were involved in this project. This includes my second assessor dr. J.A. Keizer, not the least for all his support concerning the methodology. I further wish to express my gratitude to Annemieke Hoekstra, Rick van Dommelen and all the respondents and other colleagues at PwC, who gave me the opportunity to learn from real life cases and who gave me a great time during the last six months. Finally, I would like to thank my friends at H.I.D. Quare, my parents and my girlfriend Lisa for all the support and necessary distraction during the whole process.

Erik Ligtenberg

Executive summary

Given the amount of money involved in M&A activity it is necessary to handle this subject with the proper attention. Post merger integration (PMI) – i.e. the process of integrating the two companies with each other after the deal – is of the utmost importance for success.

In recent literature on post merger integration, useful knowledge has been presented on success factors and possible pitfalls in the preparation phase and PMI phase, though only on a high organization level without any operational detail. What is not yet provided in literature is similar information focused on a lower level, e.g. with recommendations for specific business activities. Therefore this research focuses on the post merger integration phase, concerning the decisions normally made during an integration process and the motives that drive these decisions. Furthermore, it is desired to give insights in potential pitfalls, by looking at changes that can occur in an integration plan, as well as the reasons behind this. From this the following research question is derived.

In mergers and acquisitions, which operational integration activities are initially planned and why, how do these plans change and what is the cause of change?

This question is answered by conducting a series of six case studies on recent mergers and acquisitions supported by professionals of PwC Transaction Services, Amsterdam. Data is gathered from these professionals using interviews. A theoretical framework is created using literature to present the findings and draw conclusions. Integration is measured on a business activity level, and reported on the dimensions of time (i.e. moment of integration) and extent (i.e. degree of integration).

Figure 1 and 2 respectively show an overview of the integration plans, and a conceptual model containing the motives behind the decisions made regarding the integration plan.

It is concluded that integration plans are subject to a number of influences. The deal driver, i.e. the reason for the acquiring company to engage in M&A activity, is shown to have a major influence in the researched cases. The characteristics of the driver can lead to a post merger integration that is to be completed as soon as possible and in the highest possible degree, though it can also lead to vast delays and a low integration degree. Other characteristics that influence the dimensions of integration for different business activities are the business activity itself, the industry sector, the desired quality level of the activity and the question whether the acquired firm used to be a part of a larger company. Furthermore, insights are given in the changes of integration plans. Among other reasons the integration of IT systems, unrest among employees and external market conditions can cause changes in the moment and degree of integration.

Finally, Figure 3 shows a tool to use the findings of this research in practice. Given a certain situation, checks are suggested with corresponding actions to avoid potential pitfalls in the integration process. Since this is an explorative study, no correlations or causalities can be proven. One of the recommendations for future research is therefore to statistically test the most interesting findings.

			Planned moment and degree of integration							
			Moment			Degree				
			ASAP	Within planning horizon but not ASAP	Beyond planning horizon / No integration	Intervention	Coordination	Standardization	Consolidation	
Different activities, based on Porter (1985)	Support	Management	4 ₂	1	1	1			5 ₁	
		Finance	6	5	1	3		2	1 ₅	
		IT	1	5	1 ₁	1 ₂	2	1	4	
		HR	2	5	1	1	1	2 ₁	3	
		R&D (only 3 cases)	1	1	2	2	1		1	
		Procurement (only 5 cases)	1	3	1		1	2	2	
	Primary	Operations		3 ₂	3	3	2	1	2	
		Logistics (only 2 cases)		1	1	1			1	
		Marketing		3	3	4		2	2	
		Sales	1	2	4	4	1	1 ₁		
Service			2	4	4		2			

Figure 1 – Overall results regarding integration of support and primary activities

Figure 1 is explained as follows. The numbers represent the summed up totals of observations in all separate cases. A distinction is made between the integration of the majority of the business activity, which is counted in the framework with normal numbers, and the integration of specific project or parts of the business activities, displayed separately in the framework as numbers in subscript.

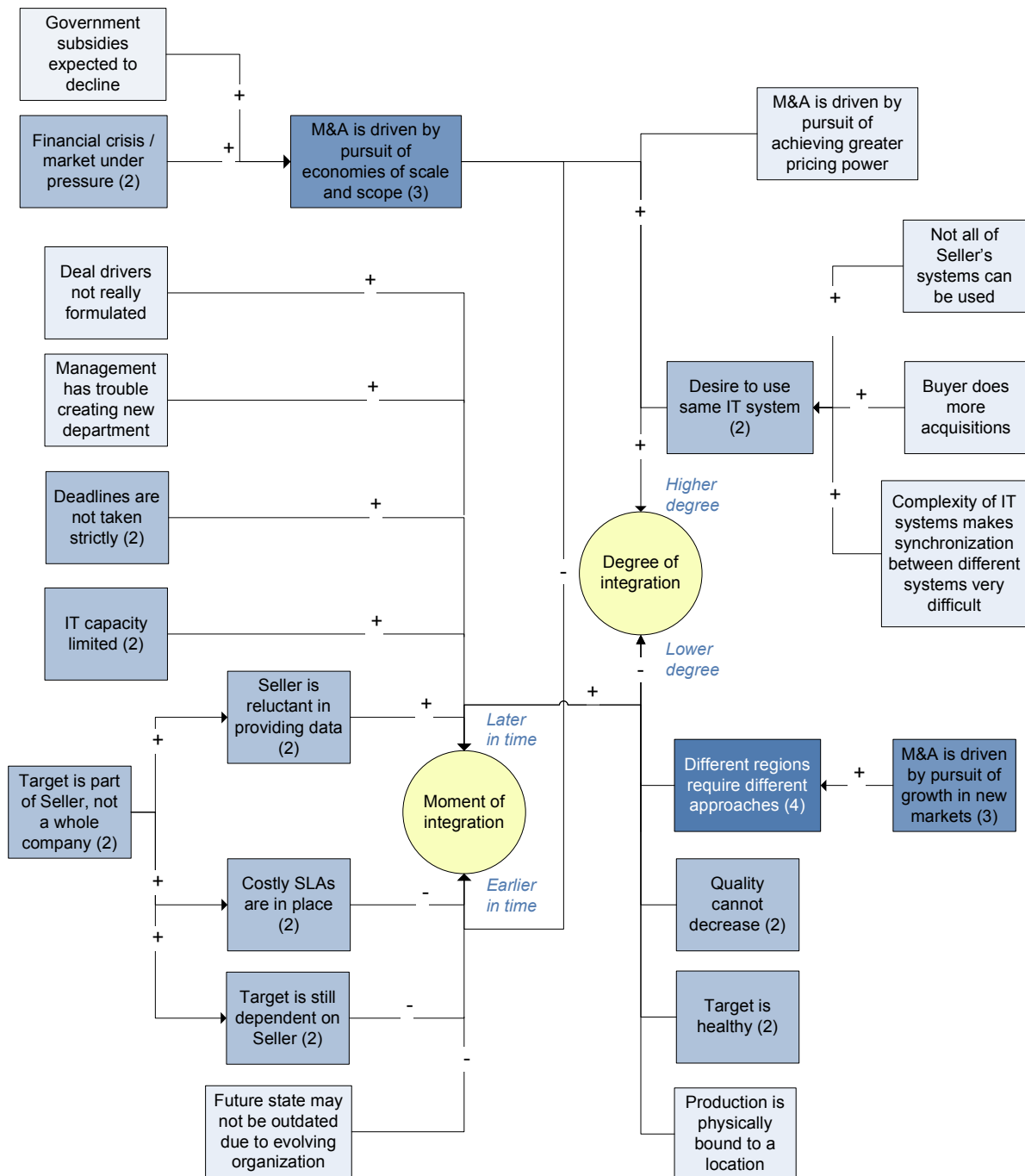


Figure 2 – Combined results regarding conceptual model of moment and degree of integration

Figure 2, containing the combined results of all six cases, is explained as follows. The underlying reasons for the planned way of integrating are presented using blocks and arrows indicating the influence on the integration plan. For the moment of integration, a minus means a push towards earlier integration, whereas a plus indicates later integration by the particular driver. For the degree of integration, the axis runs from intervention (i.e. no integration) towards consolidation (i.e. maximum integration). A minus represents a shift towards less integration, whereas a plus represents a movement towards more integration. The number in the blocks represents the number of times an influence has been listed. A higher number is furthermore highlighted by a darker color.

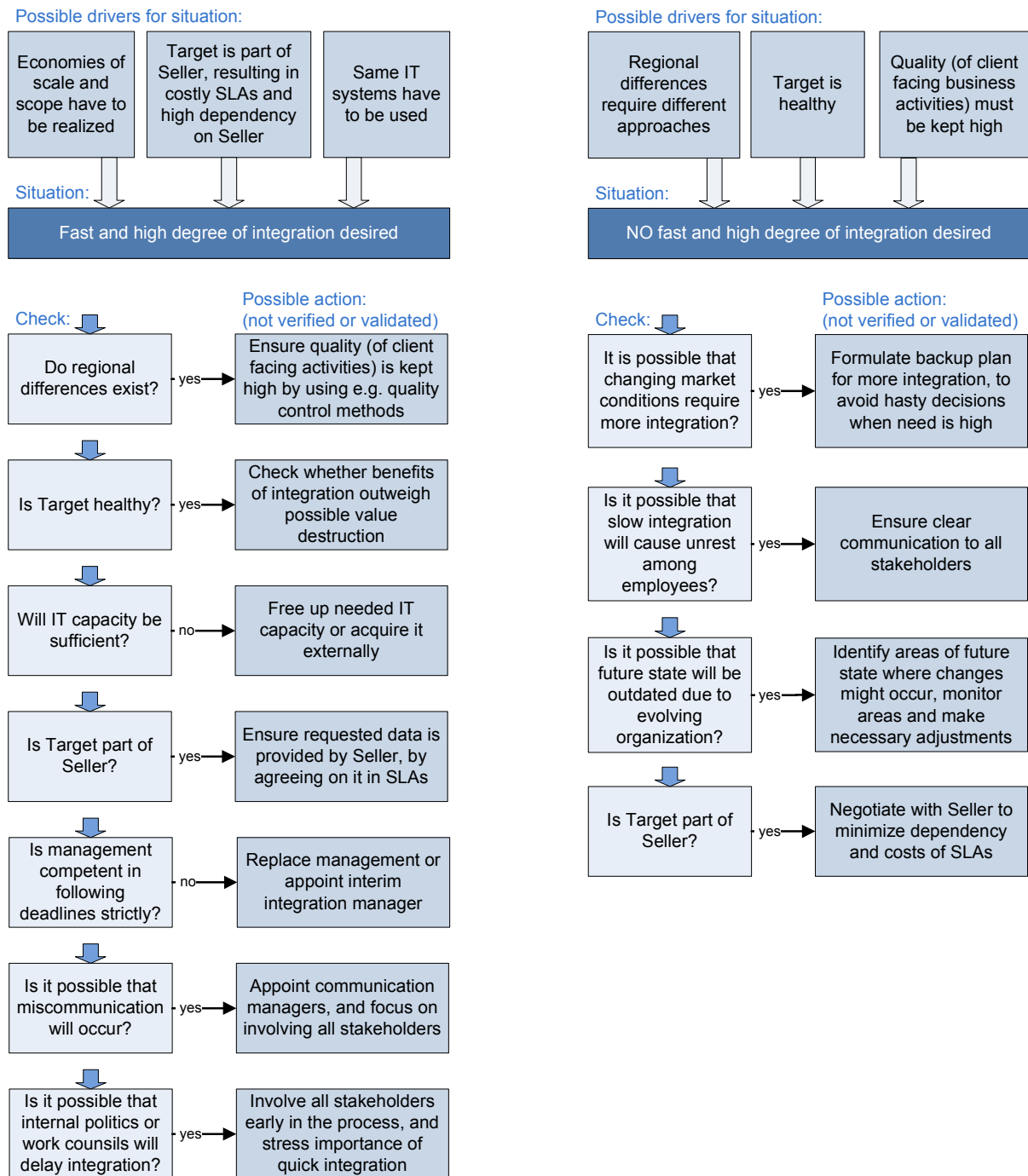


Figure 3 – Tool for integration phase preparation

The tool in Figure 3 has been created to aid companies engaging in M&A activity. It can be of use in the due diligences in the preparatory and transaction phases, as well as in the formulation of the integration plan. If certain synergies require a high degree of integration, which cannot be achieved because of certain independent variables (e.g. the existence of regional differences), the value of these synergies might be estimated much lower. Moreover, actions can be taken in advance to avoid negative effects of these independent variables in a later stage of the PMI process. In contrast to the *possible drivers for situation* and *checks*, the *possible actions* have not been deducted from this research, and have also not been validated or verified. The tool therefore needs further research before it can be relied on.

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1. Introduction

This research focuses on the operational aspects of post merger integration (PMI); the process of integrating two companies after the occurrence of a merger or acquisition (M&A). By conducting an exploratory study among six recent M&A cases in different industry sectors, knowledge is obtained of the decisions made in the PMI process regarding the integration of parts of the two companies. On a business activity level, aspects of moment and degree of integration are investigated. Moreover, insights are gained on the possible changes in the integration plan, as well as the underlying drivers of the integration decisions and these changes.

In the next sub section the need for this study is explained, after which the research questions are formulated. Subsequently the research approach is presented, accompanied by with the structure of the remainder of this report.

1.1 Motivation for research

For decades, companies have used mergers and acquisitions as a tool to pursue corporate growth, diversification (Shrivastava, 1988; Nahavandi & Malekzadeh, 1988) and renewal, often to respond to the relentless pressure from financial markets (Hakkinen, 2005). Since the trend of corporate takeovers started in the beginning of the 20th century it has been a consistent element of international business, with waves of increased M&A activity in the 1960s and the 1980s. When reaching its top in the years between 1993 and 2001, total value of global M&A transactions increased from 250 billion to over 3.5 trillion US dollars (Pryor, 2001; Hakkinen, 2005).

Today, the number of mergers and acquisitions executed worldwide has been moderated by the economical downturn started in 2007. According to Gaughan (2009) “one of the preconditions for robust M&A activity is an expanding economy”. In times of crisis, companies are busy coping with their own problems such as overcapacity and diminished revenues due to lower turnover, and difficulty with refinancing debt or raising money for new investments. Especially the latter provides the main obstacle for engaging in M&As nowadays. Though economical downturn causes many companies to be good potential takeover candidates – many are in financial distress (i.e. close to bankruptcy) and therefore relatively cheap to buy – the companies who seek to acquire them also do not have enough cash themselves nor the possibility to lend enough capital from banks for their takeover purposes. However, Gaughan (2009) also states that “even with the turmoil in financial markets, there is still a supply of companies that are doing well and that still see M&As as a means to pursue their long-term strategic goals”. Despite the amount of mergers and acquisitions worldwide has decreased, its combined value still is high. Furthermore, recent study by Gaughan (2010) shows initial signs of improvement in the M&A market. Once the economy is recovering enough, M&A activity will rise again according to Aalbers (2008): “Just as the financial crisis of the late 1980s led to a bank M&A wave (Dymski 1999), the present crisis will also lead to a new M&A wave.”

The frequent occurrence of M&As and the sizes of the deals would implicate that engaging in a merger normally is the smart thing to do. This is often not the case. According to a study by Sirower (1997), 65 percent of major strategic acquisitions have not been successful and yielded negative returns, some with catastrophic consequences for the shareholders of the buying company. And an earlier study by Kaplan & Weisbach (1992) shows that 44% of the reviewed acquisitions are sold for less money than they originally were purchased for: “deflated by the S&P 500, the average sale price of these divested units is 90% of the purchase price”. In addition, when looking at value creation and destruction by mergers and acquisitions, a study by Moeller (2005) shows a similar picture. According to her research, from 1991 to 2001 acquiring firms' shareholders lost an aggregate 216 billion US dollars on failed M&As.

Given the amount of money involved in M&A activity, as well as the low chance of success, it is necessary to handle this subject with the proper attention. The post merger integration process is one of the things that require a company's full attention.

The PMI process is perceived by many as the most critical phase in the whole M&A process, as shown by the statements made in literature. “If the buyer is not able to cash in on a deal's synergies and fails to take the combined entity worth more than its original components, the transaction is generally considered unsuccessful” (Bourgeois & Hoerber, 2009). Analogously, Kummer (2009) acknowledges PMI to be an imperative success factor for a merger. He states that “PMI should be put in the driver's seat of the M&A process – as an important step that goes along the complete M&A process from beginning to end. If you position PMI as a simple step after such tasks as strategy development, target search, due diligence, negotiations, and closing for a limited time period only, you tend to absolutely underestimate the contribution and the difference that PMI makes in making deals valuable!” Similar remarks on the importance of PMI are made by Epstein (2004), Larsson & Finkelstein (1999), Varaa (2002) and Kitching (1967).

In recent literature on post merger integration, useful knowledge has been presented on success factors and possible pitfalls in the preparation phase and PMI phase. Recommendations include putting enough effort in formulating a coherent integration strategy, assembling a strong integration team and proper communication to all stakeholders during the entire process (Epstein, 2004). Research papers are available that deal with such recommendations on organization level. However, what is not yet provided in literature is a similar set of information focused on a lower level, e.g. with recommendations for specific business activities. As Kummer (2009) implies, PMI can be a vast project that can take long periods of time. Moreover, integration of two firms will probably affect them in many parts of their organizations. However, no scientific information is available in which it is investigated what exactly is normally integrated on lower levels during such a PMI process. How the integration between business activities is planned, managed and executed is all unknown in literature. Besides a lack of available information on *what* happens during an integration process, it is also not properly investigated *why* certain decisions concerning integration are made and why these decisions are changed over time.

Without this information, it is more difficult to prepare for a PMI process and to avoid possible hazards along the way, resulting in a lower chance of making an M&A deal successful. As an aid, this study is conducted on the phenomena that occur during the PMI process, and the motives that drive these phenomena.

1.2 Research question

It has been explained that more knowledge is desired on the post merger integration phase, concerning the decisions normally made during an integration process and the motives that drive these decisions. Furthermore, it is desired to give insights in potential pitfalls, by looking at changes that can occur in an integration plan, as well as the reasons behind this.

This is summarized in the main research question, which is as follows.

In mergers and acquisitions, which operational integration activities are initially planned and why, how do these plans change and what is the cause of change?

The main research question is divided in two sub research questions, which both consist of four questions. They are visualized in Figure 4.

1. *Which operational integration activities are planned regarding what is integrated, when and to what extent, and why is this the case?*
 - 1.1 *What company parts are to be integrated?*
 - 1.2 *When are these company parts to be integrated?*
 - 1.3 *To what extent are these company parts to be integrated?*
 - 1.4 *What are the reasons behind these decisions?*
2. *How do the plans change over time regarding what is integrated, when and to what extent, and why is this the case?*
 - 2.1 *How do the plans change regarding what company parts are integrated?*
 - 2.2 *How do the plans change regarding when company parts are integrated?*
 - 2.3 *How do the plans change regarding to what extent company parts are integrated?*
 - 2.4 *What are the reasons behind these changes?*

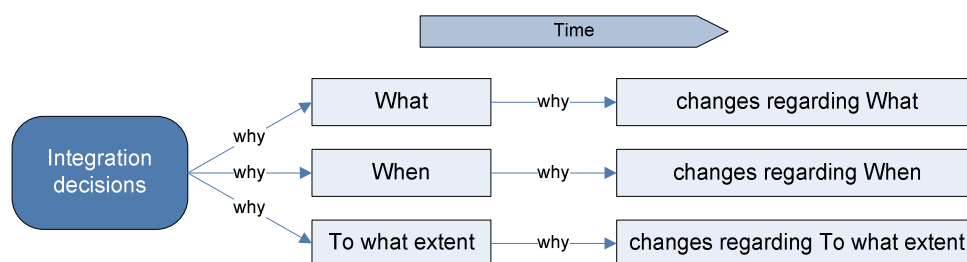


Figure 4 – Research questions visualized

1.3 Data and approach

The research is set up as an exploratory study, providing qualitative insights in phenomena and motives, instead of quantitative results in the form of e.g. statistics. An excellent way to gather qualitative data is by means of case study (Robson, 2002). This is confirmed by Yin (2003), who states that a case study is “suitable for studying complex social phenomena”. Consequently, answering the research questions will be done by conducting a number of case studies; six in total. The cases are recent mergers and acquisitions that have been guided by PMI teams consisting of PwC (i.e. PricewaterhouseCoopers Advisory NV) professionals. To avoid bias, the diversity in circumstances of the mergers and acquisitions has been maximized by selecting cases in different industry sectors. For confidentiality reasons, names of the involved companies are not publicized. Cases are named after their industry sector.

- Financial services (FS)
- Agricultural production (AP)
- Retail (R)
- Public housing (PH)
- Energy & utilities (EU)
- Health care (HC)

As preparation for this study, first literature on operational aspects of M&As is searched and read. During an iterative process, research questions are formulated to fill the gaps found in this literature. To acquire relevant knowledge on the subject, e.g. on the integration planning process, information is gathered by talking to PwC PMI professionals, and relevant literature is further studied.

Among other things, it is learned from literature which classifications are available that can aid in structuring the data needed to answer the research questions, on the aspects of *what*, *when* and *to what extent* is integrated. For the question *why* these integration decisions are made, or *why* integration plans change, literature is consulted on conditions that potentially affect these matters.

Using the gathered information from literature and the preparatory interviews, a research framework is created that will be used to structure, analyze and present the findings, in order to answer the research questions. From this research framework the interview questionnaire is derived.

The interviews are semi-structured (Robson, 2002), roughly in line with the sub research questions stated in section 1.2. The focus is on open questions, to ensure underlying causes for certain decisions are made visible. It is however constructed such that all research questions are addressed properly. The round of interviews is conducted among professionals that have worked on the PMI team or that have otherwise been involved in the integration process. After each interview the findings are analyzed to get a good overview of what has happened in the researched case, and to ensure that no essential questions are missing in the questionnaire. Possible improvements are made, and if necessary additional questions are formulated to get a deeper understanding of certain choices or conditions regarding the integration activities. In addition, particular independent variables that seem to have the potential of influencing the studied phenomena have to be checked at other cases, and accordingly have to be included in the interview questionnaires.

This cycle of taking interviews and improving them is repeated several times until enough data is gathered. The interviews that are held later on in the progress can be with the same respondents, but will moreover be with other stakeholders. This is done to capture all perspectives on the integration process, and to furthermore validate the data. Data collection of all different case studies will occur in the same period. Moreover, written reports and plans on the context of the deal, the planning of integration activities and the progression of the post merger integration phase are thoroughly analyzed for each case.

Findings of the all interviews – and consequently of all the cases – are then combined and analyzed. Similarities and differences between the cases are pointed out, and patterns and relationships are revealed. Finally, the findings are summarized and evaluated such that conclusions can be made. The conclusions are followed by a discussion and proposed future research.

Please refer to Figure 5 for a schematic overview of the research approach.

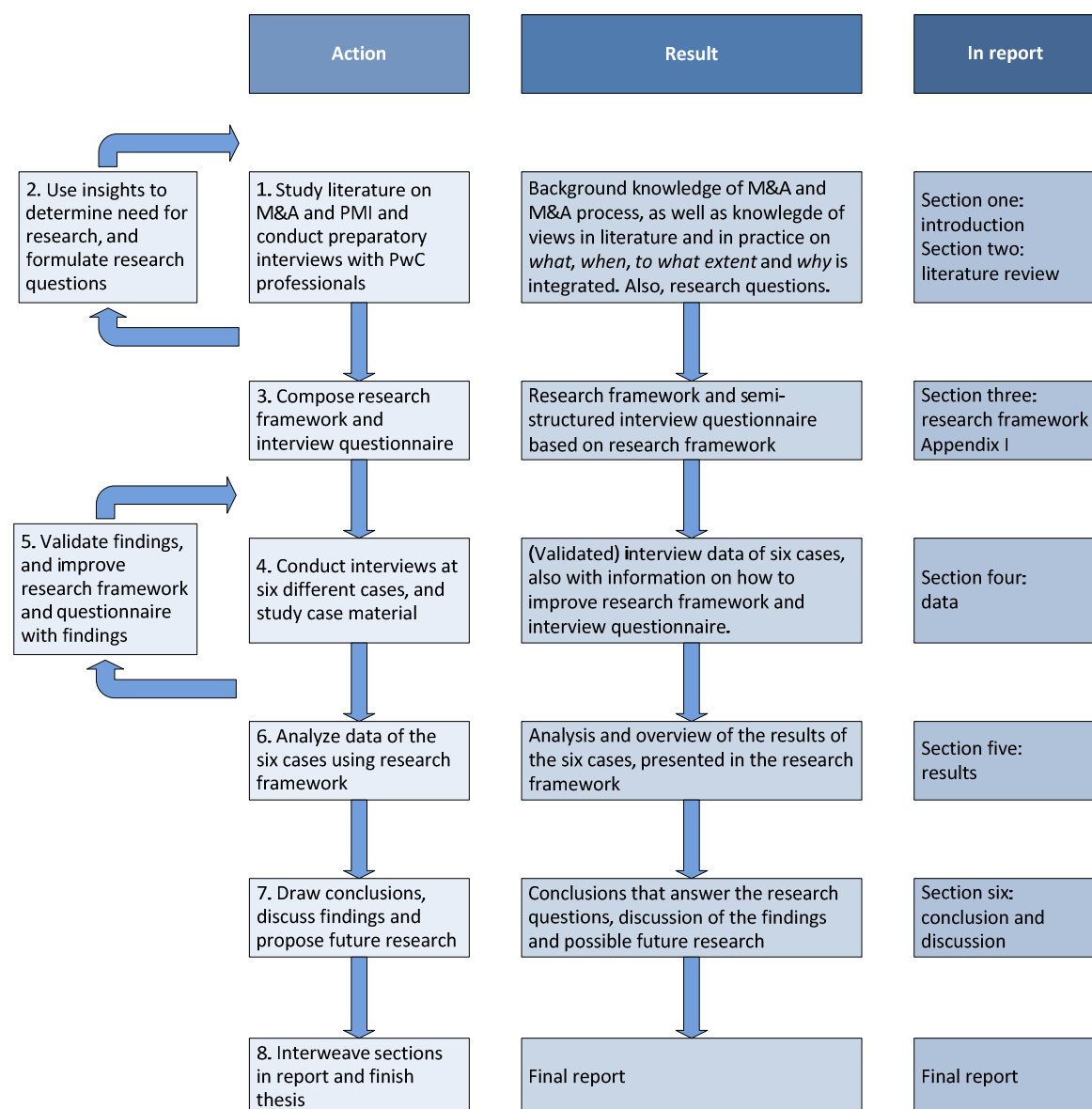


Figure 5 – The research approach

1.4 Report structure

In the remainder of this document, starting at section two, a literature review is provided with background information on M&A, as well as in-depth analyses of two elements of the research framework. These are related to the sub research questions *to what extent* is integrated and *what are the reasons behind the integration decisions*. No specific literature has been found on *what* or *when* is integrated; proper classifications for these dimensions are presented in section three. In this part of the report, the classifications found in literature, as well as newly created classifications, together form the research framework; a structure that is used to analyze the data gathered in the interview rounds. This data is presented in section four for each of the six cases, thereby using the research framework. The data is combined, and findings are elaborated on in section five. Subsequently conclusions are drawn and discussed in the final section, and recommendations for future research are made.

2. Literature review

In this literature section first a brief outline is given of the concept of M&A, the difference between mergers and acquisitions and the M&A process. Second, literature is compared on parts of the research framework, both the degree of integration during the merging of the two companies, and the strategic goals that lie at the basis of the decision to engage in a merger or acquisition.

2.1 Background

M&A is a generic term for two types of transactions; mergers, and acquisitions. Though often referred to as one and the same, there is a difference. In literature, two ways of distinguishing between them are found. Before elaborating on this difference, the actors are introduced. In this study, companies are named after the role they play in the M&A process. They can either be Buyer, Target or Seller. Target – defined as the entity acquired by Buyer – can be a whole company (i.e. Seller), or only a part of Seller. This transaction where Buyer acquires Target is referred to as deal.

The first perspective on distinguishing between mergers and acquisitions is supported by Damodaran (2005). It is based on whether Buyer integrates Target with its own organization. If there is some integration planned, the deal is called a merger. Another option is that Buyer buys Target, but does not want to integrate anything. This is referred to as an acquisition. Buyer can have as goal to let the target be a standalone company, for example to replace the old management team of Target with a new one, in order to establish a better strategy and control for more revenues. Or Buyer can decide to split the target company in different pieces and sell them separately to other investors. Since no integration takes place, the deal is an acquisition (Damodaran, 2005).

The second perspective is supported by Epstein (2005). In contrast to the perspective of Damodaran (2005), the amount of integration is irrelevant to the classification of acquisition or merger. E.g. a deal can also be an acquisition if Buyer integrates Target to the full extent with its own organization. The distinction between mergers and acquisitions according to Epstein (2005) is based on the equality of the two companies, both pre-deal as separate firms, and post-deal in the combined firm. In his paper, Epstein states that mergers “involve two entities of relatively comparable stature coming together and taking the best of each company to form a completely new organization”. Because companies are of roughly equal size and value, it is sometimes possible for both companies to merge without shifting money. This is for example the case in the merger between ABN Bank and AMRO Bank in 1990. In contrast to mergers, there are acquisitions. Acquisitions are characterized by non-equality between Buyer and Target. An acquisition involves “the much simpler process of fitting one smaller company into the existing structure of a larger organization” (Epstein, 2005).

Since all studied cases involve some kind of integration, the term *acquisition* as proposed by Damodaran is not useful. Therefore, the definition by Epstein (2005) is used in this study. Also, despite the fact that mergers are then viewed as transactions where both parties are equal, still the terms Buyer and Target will be used to distinguish between the companies. Thus, in the case of a merger, this does not imply any difference in status or size, as is the case with acquisitions.

When looking at the process of M&A, three phases can be distinguished, i.e. preparatory, transaction and integration (Meckl, 2004). Appelbaum et al (2000) identify the same three, but in their research the different phases are called pre-merger stage, merger stage and post-merger stage. A representation of the M&A process is displayed in Figure 6.



Figure 6 – M&A process based on Meckl (2004)

The M&A process starts in the *preparatory phase* when a company has grown the need or desire to find a target company to acquire. In this stage first the basic strategy is formulated. Candidates for the target company are screened by conducting initial due diligences. This means that an investigation is done to inspect the ‘health’ of Target’s organization – e.g. whether the financials are proper – and to see whether synergies can be realized that fit the deal drivers or strategy of Buyer. In this phase there is only little information available on the potential target firms, since no contact has been established yet with the firm. This happens not until the next phase, after the most ideal candidate is selected and a first plan for the merger is written, including strategic, operational, legal, financial and cultural changes that probably have to be made in the organization.

In the succeeding *transaction phase* contact is made with the target firm. Negotiations on the price and the terms are started, and due diligences are further executed. Also, a start can be made with the post merger integration plan, as well as the urgent action list (UAL), explained later on. When all is satisfying, the deal is made. The deal consists of two steps; signing and closing. First a document is signed in which the two parties agree on the deal. Signing provides certainty for Buyer that the shareholders of Target will sell the company for the agreed price. However, Target cannot yet be entirely sure of the sale. At signing, it is common that the acquiring party puts a number of conditions in the document, e.g. that it can have a last detailed look at Target’s organization, with less access restrictions. Furthermore, a number of actions on the UAL are executed to prepare for a smooth incorporation of Target. This is not included in the process model by Meckl (2004), but does occur in practice and it then perceived as the beginning of the integration phase. Finally, when all conditions are met and Buyer has the money to acquire Target, the deal is closed. There can be a long period of time between signing and closing, but it can also take place on the same day.

According to Meckl (2004) the *integration phase* begins directly after closing, when Target is officially owned by Buyer. In this phase – also referred to as PMI phase – it is common to immediately start with completing all actions stated on the UAL. This ‘Urgent Action List’ contains all steps that need to be taken for a smooth incorporation of Target. The list often includes actions like the transition of management to the newly acquired firm, ensuring payment of employees continues as normal, the legal issues concerning the acquisition, communication to employees and press, and small – but important – issues such as making certain that building access cards continue to work for all employees. Usually, the first hundred days are used for the urgent transitions (Ashkenas et al, 1997). Simultaneously the long term integration plan can be completed, after which the rest of the PMI process can commence.

2.2 Different degrees of integration

In the PMI process choices have to be made concerning what is integrated, when (i.e. at what moment in time) and to what extent. In literature, there is no classification to be found for the *what* and *when* questions regarding integration. In order to create the research framework for analyzing the case study data, proper categories have been made which are discussed in section three. What can be found in literature however, are views on the *extent* Buyer and Target are integrated with each other. In the following sub section a framework is provided that is used to analyze the different perspectives in literature on this degree of integration.

On the one hand integration can be minimal, such that all differences between Buyer and Target remain in place. On the other hand integration can be maximal, such that there are no differences left between Buyer and Target, making them one. Studies show that the degree of integration is of high importance to the success of mergers. According to Larsson & Finkelstein (1999) better integration between two firms results a higher realization of synergies; “Of all the determinants of synergy realization we studied, organizational integration was the strongest predictor. We found that the greater the degree of interaction and coordination between combining firms, the greater the degree of synergy realization.” (Larsson & Finkelstein, 1999) This statement is agreed upon by Birkinshaw et al (2000), who state that “acquisition success is a function of both human and task integration” (i.e. culture and operational integration respectively) and that “the human integration process is critical to the overall success of the acquisition”. Pablo (1994) moreover states that the degree of integration is very important to the success of a merger and therefore should be well investigated by management, where it is valuable to look at integration design decisions through multiple theoretical lenses.

These multiple theoretical lenses, i.e. perspectives, are put in a framework where they are compared for their degree of integration. The framework that is used consists of two axes. On the vertical axis, the perspective regarding the integration is displayed. The horizontal axis contains the degree of integration, from minimal to maximal. Figure 7 shows the framework with the types of integration as listed in the discussed literature. It is presented to provide an overview of the available classifications, of which one is selected for use in the research framework.

		Degree of integration		
		No integration	Partial integration	Full integration
Perspective, discussed literature	Control			
	Marks & Mervis	Separate holding	Managed subs., Operational control	Merged and consolidated
	Operational			
	Shrivastava	Conglomerate	Divisionalized, Functional	Small single unit firm
	Schweiger	Intervention	Cooperation, Standardization	Consolidation
	Buono & Bowditch	Financial, Strategic	Operational	
	Haspeslagh & Jemison	Preservation	Symbiosis	Absorption, Transformation
	Cultural			
	Nahavandi & Malekzedah	Separation, Deculturation	Integration	Assimilation
	IT			
	Wijnhoven et al.		Synchronization, Standardization	Takeover, Renewal

Figure 7 – Framework of various perspectives on degree of integration

A distinction is made between a control, operational, cultural and IT perspective. As can be seen multiple authors are grouped together in the operational perspective; in the research of all of these authors the integration of processes plays an important part. Despite this match in perspective, there are also differences between the four.

- Shrivastava (1988) distinguishes operational degrees of integration by looking at the whole (set of) companies. It is determined how big the part is of the two companies that are influenced by each other, ranging from no integration between separate firms to full integration as the two firms have become a single firm entirely.
- Schweiger (1999) describes it more from a process point of view, where the change (i.e. integration) in processes is vital to interact with the other firm. It can be applied to both an organizational level as is the case with Shrivastava, but also on a lower level of business activities or processes and procedures.
- Buono & Bowditch (1989) on the other hand look at the alignment of ways of working in both firms to determine the degree of operational integration. This ranges from no alignment, via alignment of similar goals to alignment of operations.
- Haspeslagh & Jemison (1991) look at the degree of integration from a change point of view. It is mainly about the operational changes, similar to those described by Schweiger, but also about changes in norms and culture in both firms.

When looking at the degrees of integration on the horizontal axis, the following observations can be made.

First, all authors except for Wijnhoven et al. (2006) list a situation where *no integration* takes place. They all agree on the following characteristics.

- Both firms remain separate from each other
- Both firms preserve their own identity and way of acting

A small difference can be found in the degree of direct interaction between the two firms. According to Shrivastava (1988), Buono & Bowditch (1989) and Schweiger (1999) some form of interaction is possible in this state, e.g. in the form of the movement of cash and debt, but only to such an extent that the identity and/or the way of working of both firms remains unaltered. The other authors do not state such a possibility.

Second, all authors list a situation where there is *partial integration*. For all the degrees, the following statements are true

- Both firms remain separate from each other
- At least one of the firms is changed in its own identity and/or way of acting, and has been influenced in this by the other firm

Despite the match in name, the term Standardization as proposed by Wijnhoven et al. (2006) is not exactly the same as the term used by Schweiger (1999), apart from the obvious difference in perspective and applicability (respectively IT systems versus processes). Wijnhoven et al. state that the standardization of ways of working is based on a best-of-two-worlds principle, i.e. combining good parts of both Buyer and Target. For Schweiger's term of Standardization, this is not a characteristic. I.e. the ways of working of both companies can also be made similar to the model of e.g. Buyer's processes and procedures.

Third, all authors except for Buono & Bowditch (1989) propose a situation with *full integration*. The following statements are true.

- There is only one entity left
- All traces leading back to the original firms are vanished

Interesting in this degree of integration, is the fact that two authors propose multiple situations where integration is maximal. Haspeslagh & Jemison (1991) distinguish between Absorption and Transformation, where the first term implies that the ways of working of one of the firms is used as model of the new situation, and the second term implies that the two firms change towards ways of working that are new to both of them. The distinction made by Wijnhoven et al. is similar to this. Takeover implies a full integration by using one system for both firms (i.e. Absorption) and Renewal implies a full integration by using a new system that is new to both firms (i.e. Transformation)

It is shown that multiple perspectives on the degree of integration can be found in literature. Situations range from no integration where both firms remain separate and are not influenced in their ways of working by each other, to full integration where only one entity remains with no traces of the old organizations. Moreover, other similarities can be found in the proposed terms in literature. Two authors agree that full integration is possible in two different ways; with the ways of working of one of the firms as a model for the fully integrated situation, or with ways of working that are newly created, and different from the old ways of working of both firms.

Of all different perspectives, the research by Schweiger (1999) is used in this study. It fits with the operational focus of this study, and has no classification limitations or a focus that is too broad, as is the case with the other operational perspectives.

- Shrivastava (1988) differentiates the extent of integration on a company level, looking at the size and type of businesses. This results in a mismatch with the aim of this study, which is to measure integration on a business activity level. For example, the second term listed by Shrivastava is Divisionalized, which means that only those divisions of the target that have synergy with the buying firm are integrated. This is not applicable when determining the integration of a single business activity, since the business activity itself is a division. It is therefore not usable in the case studies.
- The research by Buono & Bowditch (1989) lacks the option of a situation where there is full integration, and is therefore not usable.
- Haspeslagh & Jemison's study focuses on four different kinds of integration. The distinction is made by looking at the degree of change in the organization, including parameters as culture and norms. E.g. one of the listed degrees of integration is symbiosis, which has as a characteristic that a common culture begins to develop. Since the goal of this research is to look at integration from a purely operational perspective, where the integration of processes is central, the perspective by Haspeslagh & Jemison (1991) is perceived as too broad.

The perspective used by Schweiger (1999) is applicable in this study. He distinguishes four degrees of integration on a purely operational level. The precise definitions of these degrees of integrations are elaborated on in section three, when the research framework is presented.

It has so far been explained that no classifications are available concerning *what is integrated* and *at what moment*, and that Schweiger (1999) is used for describing *to what extent* is integrated. This leaves the sub research question on *why* certain moments and degrees of integration are chosen. A possible driver for these decisions is presented in the next sub section.

2.3 Driving force behind mergers and acquisitions

In literature we find Shrivastava (1986), Datta (1991), Porter (1985), Schweiger & Very (2003) and Nahavandi & Malekzadeh (1988) stating that the *M&A driver* can have an influence on the choices of what is integrated and to what extent. According to Schweiger & Very (2003), “different strategies result in different sets of potential synergies with different integration challenges.” These integration challenges consist of – among others – the degree of integration needed to maximize the realization of synergy. The approach by Nahavandi & Malekzadeh (1988) is as follows. “The choice of the degree of relatedness between the two firms in mergers depends upon the motives behind the merger.”

As further discussed in section three, the *M&A deal drivers* are taken into account as possible influence on decisions regarding what, when and to what extent is integrated. I.e. it focuses on the *why* sub research question. Besides a proposed driver for integration strategies, deal drivers are the reasons why companies engage in M&A activity at all. What these deal drivers precisely are and how they are described in literature is presented here. First some background is provided in the general motive behind mergers and acquisitions, then a framework is presented containing the most important deal drivers listed in literature and finally all separate drivers are explained.

As described in section 2.1, the M&A process is started with the deal drivers being present. I.e. there is a need or desire for Buyer to find a target company to acquire. The general reason behind this need or desire is that mergers and acquisitions can create additional value. When an acquisition is done, Buyer purchases Target from Seller. The sum that is to be paid consists of the stand alone value (i.e. market value) of the company, plus an additional fee. The stand alone value of the company is the market’s expectation of all future cash flows of this company (Bruner, 2009). This is reflected by the total worth of all shareholders’ shares, i.e. share price multiplied by number of shares outstanding. The fee – also known as acquisition premium – is the profit the owners of the target, its shareholders, receive for selling their investment. Since Buyer has acquired Target for an amount larger than its value (i.e. the value plus the fee), by definition he will lose money if the target company is left unaltered. Then why would one company take over another? In case of a merger, the answer is synergy. (Berkovic & Narayanan, 1993).

“Synergy, the increase in value that is generated by combining two entities to create a new and more valuable entity, is the magic ingredient that allows acquirers to pay billions of dollars in premiums in acquisitions. It is the additional value that is generated by combining two firms, creating opportunities that would not been available to these firms operating independently.” (Damodaran, 2005).

Schweiger & Very (2003) have illustrated the relation between the amount paid by the buyer, and the synergy that has to be realized to make the acquisition profitable. This can be seen in Figure 8 (Schweiger, 2002). The size of the acquisition premium is depicted as the “range of synergy values”. This amount that is paid on top of the stand alone value of the target firm (i.e. Price 2 on top of Price 1) has to be earned back by realizing the possible synergies. It also occurs that deals are made where Price 3 is also paid. This will result in a situation where – even when all possible synergies are achieved – still not enough cash will be generated to break-even from the deal, resulting into a loss for Buyer.

Note that in case of a merger the reasoning is roughly the same; the value of the deal is perceived as the value of the synergies.

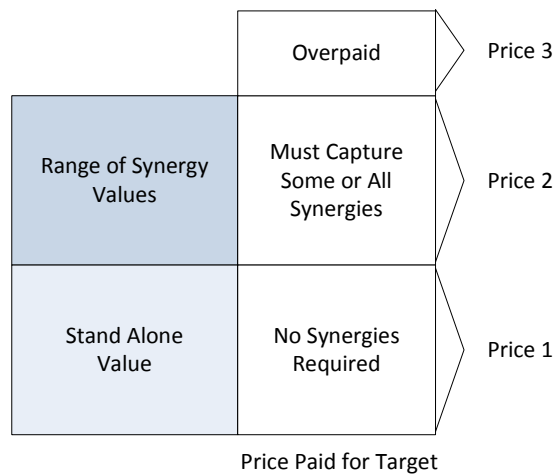


Figure 8 – Pricing, Synergy and Value Creation (Schweiger, 2002)

As outlined, companies engage in M&A activity when they can benefit from the available synergies. Achieving such synergies drives the company in pursuing making M&A deals, and a wide array of these *deal drivers* is described in literature. To provide an overview of the information available, a framework is presented with the most important drivers for pursuing M&A activity. It is analyzed how the perspectives on these drivers differ between the authors, and where similarities can be found. The drivers are furthermore explained and elaborated on, and examples are given of the drivers in practice.

For the analysis, a distinction is made between different groups of deal drivers. This distinction which has been newly created from a combination of groupings listed in literature is as follows.

- Operational
- Environmental
- Financial
- Other

Before elaborating on the specific deal drivers that together form these groups, the groups are discussed and compared to literature. Views on different deal drivers have been found in papers from Damodaran (2005), Gordon, Walter & Barney (1990), Schweiger & Very (2003), Hu & Zhang (2006) and Trautwein (1990).

As a first group the *operational* synergies can be distinguished. In this study, operational synergies are characterized by their impact on the internal processes and internal strengths and weaknesses of the merging firms. They drive M&A activity, regardless of external influences on Buyer and Target.

As second group – in contrast to the operational drivers – *environmental* deal drivers are focused on the external influences. To explain this group, the Five Forces model by Porter (1979) is used. Porter uses the model to give insights in the attractiveness of a market, where competitiveness is the main influencing factor. This competitiveness can result in pressure from new entrants, substitute products or services, bargaining power of suppliers or buyers and rivalry among existing competitors. Engaging in M&A activity can sometimes help to decrease the competitiveness of these external influences. The drivers that have this characteristic are referred to as environmental deal drivers in this study. Furthermore, drivers that focus on expansion in the market are also included in this group.

The third group consists of financial reasons to pursue M&A activity, whereas the fourth and last group is formed by other deal drivers that do not have the operational, environmental or financial characteristics.

In the discussed literature, deal drivers are grouped in other ways. Often this is caused by the background of the author. For example, well-known researcher of financially related subjects Damodaran (2005) distinguishes between operational and financial synergies, where everything other than financial is included in the operational group. Schweiger & Very (2003) on the other hand, with their operational background, do not go into financial drivers at all and group their findings in cost, revenue, market power and intangible synergies, which are related to the operational and environmental groups in this research' framework. Trautwein (1990) has a completely different way of grouping the drivers, based on the overall motive of Buyer to engage in M&A activity. These motives are pursuing efficiency, monopoly and empire-building. Gordon, Walter & Barney (1990) have a roughly similar approach. Finally Schuler & Jackson (2001) have not grouped their proposed deal drivers.

Since the distinctive groups as presented in literature each have their shortcomings in e.g. providing a balanced framework that can include the different drivers found, a new framework has been proposed in this study, that provides a good basis in which all important deal drivers can be listed.

In Figure 9 this framework is shown. As can be seen, each of the four groups consists of a number of different deal drivers that are found in literature. Together, these drivers include all important reasons for engaging in M&A activity. For each reason it is shown whether it is handled in literature. If this is the case, the particular paper is marked with an 'x'.

			Discussed literature					
			Damodaran (2005)	Gordon, Walter & Barney (1990)	Schweiger & Very (2003)	Schuler & Jackson (2001)	Hu & Zhang (2006)	Trautwein (1990)
			Drivers listed in literature					
Drivers for engaging in M& activity, grouped per type	Operational	Economies of scale and scope	x	x	x	x	x	x
		Combination of different functional strengths	x	x				x
		Cross-selling products		x	x			x
		Exchange of knowledge and knowhow		x	x			
	Environmental	Growth in existing markets	x	x		x	x	x
		Growth in new markets	x	x		x		x
		Elimination of competitors		x	x	x		
		Greater pricing power	x				x	
		Control of input and output in vertical channel		x		x		
	Financial	Tax benefits	x	x		x	x	x
		Risk spreading	x	x		x	x	x
		Other financial reasons	x	x		x	x	
	Other	Benefits for management team		x		x		x
		Control benefits	x					x

Figure 9 – Framework for M&A drivers

2.4 The M&A deal drivers

In this sub section, all deal drivers that are listed in the framework of Figure 8 are explained. Similarities and differences between points of views in the discussed literature are elaborated on, and conclusions are drawn at the end of the sub section. This overview of drivers is used in the studying of the six cases to check whether a deal driver has been a motive in the deal, and is indeed an influence in – among other things – the degree of integration as stated in literature.

Realizing economies of scale and scope is the most listed deal driver in the discussed literature. This synergy consists of the theory that by producing more, fixed costs and overhead costs can be divided over more products, thereby decreasing the cost per product. In a similar way, revenue can be increased by using the combined sales team of Buyer and Target, to increase sales of both firms. In fact, economies of scale and scope can be found in a great number of areas, where the key is to “create economies of scale by relevant capacity expansion” (Gordon, Walter & Barney, 1990). The combination of capacity of both firms increases output by more than the sum of the two separate parts. This implies that the same output as both firms used to produce, can be achieved with less than the combination of effort. Therefore, realizing economies of scale and scope is not only a way to increase output, but also to decrease work capacity and thus to cut costs. This can either be done in all parts of the company, but easiest in activities where the processes are similar between Target and Buyer, such as overhead functions.

Combination of different functional strengths is described by Schuler & Jackson (2001) as “gaining a core competence to do more combinations”. Damodaran (2005) uses an example situation: “when a firm with strong marketing skills acquires a firm with a good product line.” It is based on the theory that one firm can benefit from the functional strengths of the other firm, and vice versa.

Cross-selling of products is another frequently used reason for pursuing M&A activity that is discussed in literature. It is listed by Schweiger & Very (2003), Hu & Zhang (2006) and Trautwein (1990), and means that the sales force of Target and/or Buyer can include the products of the other firm in its portfolio. This way the products can be presented to a wider audience, i.e. the customer base of both Target and Buyer.

Exchange of knowledge and know-how is related to the combination of different functional strengths. This deal driver focuses on the sharing of knowledge and knowhow to improve output at Target and/or Buyer. Schweiger and Very (2003) call this an intangible synergy.

Growth in existing markets is another deal driver that is listed in all discussed literature, though it is often combined with growth in new markets, e.g. by Damodaran (2005). For most authors, growth is perceived as a goal itself. E.g. more growth means greater market share, which results in higher revenues. Underlying aspects are also listed. Trautwein (1990) for example mentions that a bigger company can deter potential new entrants from the market (as described in Porter’s Five Forces model). And according to Schuler & Jackson (2001), “by merging to a larger firm, the buyer is less likely to be acquired itself.” E.g. KLM joined forces with Air France to avoid being acquired by another company.

Growth in new markets. Expanding to a different market can have multiple benefits. When Buyer’s own market is satisfied with competition, the same sector in another region (e.g. country) can have plenty of space for new entrants to enter, making it possible for the company to grow. Also, the characteristics of this new region can be such that there is much more demand for the product the company is selling, or that there are more options for cheap labor and production sites. Furthermore, growth in new markets can also concern the growth in another sector. Companies often change strategy and enter sectors they do not currently operate in, e.g. sectors that may be flourishing or are expected to become important in the near future. With the acquisition of a firm here, a company ensures itself with a good basis to expand from. Expanding to new markets can also be a goal itself, as Schuler & Jackson (2001) describe the pursuit of “world-class leadership, global reach”.

Elimination of competitors is a deal driver proposed by Schweiger & Very (2003). According to them “it allows an acquirer to maintain or increase prices in the market thereby improving margins and cash flows.” Schuler & Jackson (2001) have another explanation for this driver, i.e. “adopt potentially disruptive technologies”. This means that by acquiring the firm that is developing a substitute for Buyer’s products, Buyer will not be pushed out of the market. In this way the *threat of substitute* from Porter’s Five Forces model is intercepted.

Greater pricing power can also be derived from the Five Forces model by Porter (1979). By creating a larger company (or an oligopoly or monopoly), more pressure can be put on customers and suppliers to negotiate better prices. Besides Damodaran (2005), also Hu & Zhang support this deal driver. They call it “market power control”.

Control of input and output in vertical channel focuses on the increased control over suppliers and customers, which can be achieved by merging vertical in the channel, i.e. acquiring suppliers or customers. It can “improve efficiencies and reduce risk in the supply of specific goods and/or services to the acquiring company.” (Gordon, Walter & Barney, 1990). This is agreed on by Schuler & Jackson (2001), who refer to it as “channel control”.

Tax benefits is the first financial deal driver. By having a profitable company merge with a company that is still investing (i.e. losing money), profits can be booked such that less tax is obliged.

Risk spreading is another deal driver that is listed by many; five out of six authors. Damodaran (2005) calls it diversification, Gordon, Walter & Barney (1990) describe it as the following: “Reduce risks and costs of diversifying products and services delivered to customers within an industry.” By merging with a company that is active in a different market, risks are spread more, which makes the cost of capital lower, i.e. raising money easier and thus cheaper.

Other financial reasons include increasing the debt capacity, i.e. by becoming a larger company, the buyer can get more loans from banks and other investors, which it can use for new investments (Damodaran, 2005), and “Promoting visibility with investors, bankers, or governments, with an eye to subtle benefits later” (Gordon, Walter & Barney, 1990).

Benefits for the management team can also drive the pursuit of M&A activity. This can either be prestige related benefits, or salary related benefits. “Fulfill the personal ambitions, vision, or some particular goal of the acquiring company's chief executive” (Gordon, Walter & Barney, 1990), is an example of the first, whereas Schuler & Jackson (2001) list both. This deal driver is not always best for the company and its shareholders, as stated by Trautwein (1990). According to him, “mergers are planned and executed by managers who thereby maximize their own utility instead of their shareholders' value.”

Control benefits is the last deal driver that is elaborated on. According to Damodaran (2005), control benefits are present if Buyer can run Target more efficiently. The definition given by Trautwein (1990) is almost similar. “Managerial synergies are realized when the bidder's managers possess superior planning and monitoring abilities that benefit the target's performance.” This particular deal driver is often used in acquisitions where Target is financially unhealthy, but has the potential of improving its results when controlled by a better management: “The value of control derives from changing the way a company is run and will be higher at poorly managed, poorly run firms” (Damodaran, 2005).

As can be seen, a wide array of different reasons for engaging in M&A activity is described in literature. In all of the discussed papers, 'economies of scale and scope' is pointed out as a common reason for engaging in M&A activity. Higher growth in new or existing markets and a variety of financial reasons are also returning M&A drivers, each listed in more than half of the papers.

It is interesting to see that – besides the deal drivers that are frequently listed – there are also a great number of reasons listed in only three out of six papers or less. This can partly be explained by the focus that some authors have. As mentioned, Damodaran has a financial background, whereas Schweiger & Very look from a more operational perspective. However, it is still quite strange that clear deal drivers such as greater pricing power and the exchange of knowledge and know-how are listed by so few authors. It is furthermore remarkable that 'benefits for management team' is also put forward in literature several times. As Trautwein (1990) explains, this is often conflicting with other synergies, and can even lead to the pursuit of deals that will destroy shareholders value.

From this comparison between papers it can also be learned that there is some overlap in drivers. Most has already been filtered out with the introduction of the framework in Figure 5, but some overlap still exists. For example, the growth in existing markets is strongly related to achieving greater pricing power. The latter is only possible in the case of growth of the company, realized by acquiring others. Also, elimination of competitors is inevitable when growing in the existing market, since the acquired company used to be a competitor. Moreover, cross-selling products as well as exchange of knowledge and know-how can be seen as a special form of combination of different functional strengths.

2.5 Conclusion

Be it benefits on an operational level, such as economies of scale and scope, environmental synergies, like growth in new markets, or financial or other reasons, it can certainly be concluded that there is a great number of reasons for companies to engage in M&A activity. From these deal drivers companies can go through the preparation and transition phase of the M&A process, were the deal is finalized at the moment of closing. In the following integration phase, the PMI plan can be executed. Part of this plan is making decisions about which company parts to integrate, on what moment and with what degree of integration. The latter can be looked upon from different perspectives, thereby providing insight in the right combination of integration forms available, to have the best fit for that particular merger and maximize the outcome of the post merger integration process.

In the available literature on M&A no classifications can be found of *what* is integrated, or *when* is integrated. However, the literature research has provided a classification for the *extent* in which company parts are integrated; the perspective by Schweiger (2002) is selected. Furthermore, literature shows that M&A deal drivers might influence this degree of integration. With the presented overview of the most important reasons for a company to engage in M&A activity, the cases can be analyzed for the presence of such a deal driver. This is further explained in the next section, which deals with the research framework.

3. Research framework

In this section the research framework is presented. It is partly derived from the literature as discussed in section two, and it is used for the structuring of data and the presentation of results. When looking at the first research question and its sub questions, we can define the following dimensions of integration plans; what is integrated, when, in what degree and why. For each of the first three dimensions, a scale is made on which the data of the different cases is compared. For the latter, a conceptual model is presented. Furthermore, a model is presented for the second research question on the changes in the integration plan.

3.1 What company parts are to be integrated?

To structure *what* is integrated, a distinction is made between certain business activities. In this research, the value chain of Porter (1985) is used to provide this differentiation. Porter distinguishes nine activities in his value chain of companies, which are shown in Figure 10. They are the following.

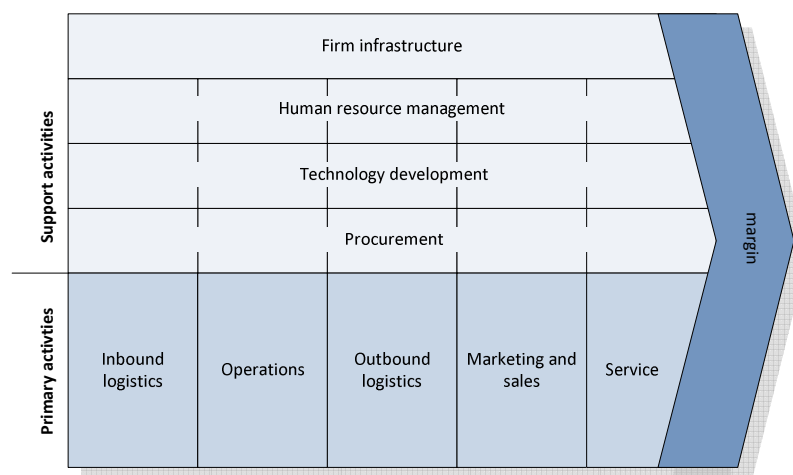


Figure 10 – The Value Chain (Porter, 1985)

Support activities

1. *Firm infrastructure*, including management and quality management, finance and accounting
2. *Human resource management*, the processes related to compensation, development and recruitment of employees
3. *Technology development*, R&D processes to support and improve products and procedures
4. *Procurement*, the processes related to purchasing input materials, buildings, equipment and external services

Primary activities

5. *Inbound logistics*, the processes related to receiving and storing the input supplies
6. *Operations*, the process of adding value to the input supplies to create the final product
7. *Outbound logistics*, the processes related to warehousing and distribution of the final product
8. *Marketing and sales*, the processes focused on advertising and selling the final product to customers
9. *Service*, the after-sales support to customers

Using Porter's distinction of business activities as a basis, a number of modifications are made to make the model more suitable for comparison between the different cases and sectors, and to make results more detailed and relevant.

Firm infrastructure is divided into management and finance, in which the latter also includes other financial activities such as accounting and treasury. The management business activity is limited to the CEO and the rest of the top management board; lower level management is assumed to be part of other specific business activities. Other processes that Porter viewed as part of firm infrastructure, such as quality control, are left out since they turned out to be irrelevant in the selected cases.

IT is added as support activity. Twenty five years ago, when Porter created his value chain, IT was virtually non-existing. But since it plays a vital role in almost any company nowadays it has to be included in the list of business activities and can be seen as part of the firm infrastructure. Human resource management and product development are shortened to the more commonly used terms HR, respectively R&D. Inbound and outbound logistics are grouped to logistics, since the distinction between the two is not necessary: in the cases where the logistics business activity is applicable, inbound and outbound logistics are treated similar when it comes to the integration strategy that is used. This in contrast with marketing and sales, which is split up, since both activities often have a different way of working and therefore a different needed integration approach, as will show in the results.

All facets of the business activities are observed when analyzing what is integrated. For example, the IT business activity consists of all processes, departments and procedures related to supporting the IT systems, as well as the IT systems themselves. This leads to the following overview of what can be integrated in a post merger integration process.

Support activities

- *Management*
- *Finance*
- *IT*
- *HR*
- *R&D*
- *Procurement*

Primary activities

- *Operations*
- *Logistics*
- *Marketing*
- *Sales*
- *Service*

3.2 When are these company parts to be integrated?

No literature has been found to help structure *when* is integrated. The difference between the UAL and long term integration plan – as described in section 2.1 – is not a scale that can be used properly, since the UAL often deals with integration steps that are critical in taking control, but do not have the magnitude of projects on a business activity level. Therefore it is decided to create a new classification, where the distinction is made such that it is comparable between all the different case studies. This rules out the use of an absolute scale, e.g. the number of months and years counted from a certain point in time, because a time frame of one year for integration could be plenty of time in a relative simple M&A case, though insufficient in a complex post merger integration process. To avoid bias, it is opted to use a relative scale in which the moment of integration can be one of three possibilities. These are the following.

- *As soon as possible (ASAP)*
- *Within the planning horizon*
- *Beyond the planning horizon / no integration*

The planning horizon is the timeframe the company uses for the integration process, as stated on the moment of closing the deal. At this moment in time, Buyer has an idea of which business activities it wants to integrate, at which moment in time the integration should be finished and what the degree of integration should be when it is finished. Since this idea can change over time, it is opted to only look at the plans available on the moment of closing the deal, to ensure equal treatment of all cases.

First a distinction is made between integration that is planned *within the planning horizon* and *beyond the planning horizon / no integration*. In the event that there is no integration planned for a certain business activity at the moment of closing the deal – irrelevant of the possibility that somewhere in the future this activity might be integrated after all, or not – it is marked as *beyond planning horizon / no integration*.

When looking at the integrations that lie *within the planning horizon*, a special category is made for (parts of) business activities that are integrated relatively fast. To make this distinction, it is looked at the priority Buyer has appointed to this particular integration. If Buyer has the urge to accelerate a particular integration process to be finished early within the planning horizon, this integration is marked as *As soon as possible (ASAP)*. This is displayed in Figure 11.

Thus, *As soon as possible (ASAP)* implies a high desire for integration. *Within planning horizon* implies that the need is lower, though integration itself is desirable and is planned in the near future. *Beyond planning horizon / no integration* implies a low desire for integration.

Moment of integration:	Integration plan is available at time deal is closed	Buyer has urge to integrate faster than rest of integration process
<i>As soon as possible (ASAP)</i>	yes	yes
<i>Within the planning horizon</i>	yes	no
<i>Beyond the planning horizon / no integration</i>	no	no

Figure 11 – Moment of integration

3.3 To what extent are these company parts to be integrated?

To structure *to what extent* is integrated, literature is used to choose a proper scale. As shown in section 2.2 integration is viewed from many different perspectives, including operational. One of the operational perspectives is the research by Schweiger (1999), which is used in this framework. Figure 12 shows a graphical depiction of the differences, which are as follows.

- *Intervention.* No integration. This can either mean that Buyer makes no changes at all in Target, or merely changes that do not imply interaction between the two firms. Intervention is the logical choice if there is no synergy possible between Buyer and Target, but merely control benefits (Damodaran, 2005).
- *Coordination.* Target and Buyer make use of each other, e.g. by keeping the same treasuries or by cross selling. The implementation of best practices of one firm into the other firm is also a characteristic of coordination. However, in this degree of integration the processes and procedures of both companies will remain different from each other, and separate.
- *Standardization.* Functions and activities of Buyer and Target are standardized and formalized, making them identical. I.e. the description of the processes and procedures in the business activities are made similar to each other. However, the processes of Buyer and Target are still separate, e.g. Buyer and Target only cater the clients of their own region.
- *Consolidation.* Integration is maximized. Functions and activities are combined to such an extent, that boundaries between Buyer and Target disappear. E.g., in the case all business activities are consolidated entirely, one single firm is formed and nothing traces back to the fact that it used to be two separate firms. Consolidation often implies physical merging, though this is not essential as long as the merged business activity caters the entire firm, instead of merely Buyer or Target.

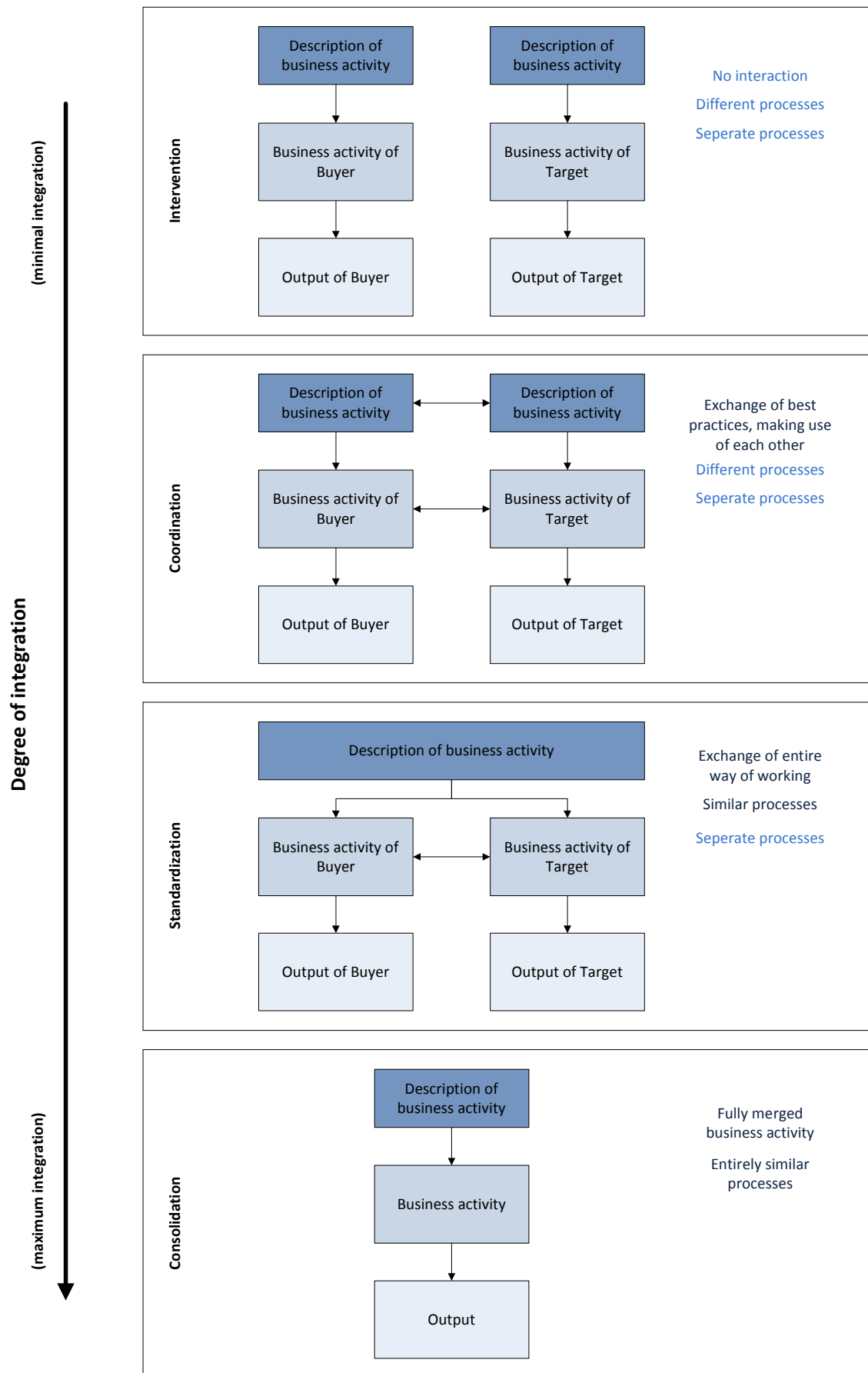


Figure 12 – Differences between the four degrees of integration proposed by Schweiger (1999)

Figure 13 shows the combination of the questions on *what*, *when* and to *what extent* is integrated. This framework is used to present the decisions made in the different case studies. For each business activity, a certain moment and degree of integration is chosen. This combination is marked with an X if the majority of the business activity is integrated in this way, and with a smaller x if it applies to only a particular project or part of this activity. As can be seen in the framework, each combination has one or more underlying reasons, including but not limited to the M&A deal drivers. These independent variables are further elaborated on in the next sub section.

Different activities, based on Porter (1985)			Planned moment and degree of integration								M&A drivers and other listed reasons		Other non-listed reasons	
			Moment			Degree								
			ASAP	Within planning horizon but not ASAP	Beyond planning horizon / No integration	Intervention	Coordination	Standardization	Consolidation					
Support			Management											
			Finance											
			IT											
			HR											
			R&D											
			Procurement											
Primary			Operations											
			Logistics											
			Marketing											
			Sales											
			Service											

Figure 13 – Framework for integration of support and primary activities

3.4 What are the reasons behind these decisions?

As this is an exploratory study, it is desired to discover *why* certain company parts are integrated (or not), and also why at these specific moments and in these specific degrees. To avoid focusing on a too narrow set of causes, this dimension is not bound to a classification or theoretical framework.

However, there are multiple independent variables that are included in the analysis upfront, since it is expected that they might influence the integration decisions. These variables are the following.

- M&A deal driver
- Support activities vs. primary activities
- Health of Target
- Friendly vs. hostile deal
- Amount of preparation
- Target is a whole company vs. Target is a part of Seller
- Commercial vs. semi-public sector

The first independent variable taken into account in this study is the *M&A deal driver*; the motive that Buyer has to merger with, or acquire Target. In section 2.3 an extensive overview is provided of all important deal drivers that are listed in the discussed literature. For all of these drivers it is argued what effect it will have on the desired degree of integration, based on logical sense.

Realizing economies of scale and scope is often pursued if cost savings are important. Cost saving will be maximized when the use of resources is minimized, which is the case with consolidation. Thus, this level of integration is likely to be pursued. The *combination of different functional strengths* on the other hand can be achieved when integrating on a coordination level or higher. *Cross-selling of products* requires at least coordination of the selling business activity, whereas *exchange of knowledge and knowhow* has a similar requirement regarding the R&D activity.

If the deal has been made to ensure *growth in existing markets*, the companies are probably highly similar. This implies many opportunities for economies of scale and scope, and thus quick integration on standardization or consolidation level will likely be pursued. *Growth in new markets* as will on the other hand probably result in a situation where integration is not immediately pursued. Since Buyer has little or no primary processes running in the new market, integration will likely focus on the support activities or the exchange of best practices. But often special knowledge is required for this new market, making integration difficult. Also, consolidation will be very difficult if the activities are geographically dispersed.

For the *elimination of competitors* integration is not a must, whereas for achieving *greater pricing power* the procurement and/or sales activities of the two companies are best fully integrated (i.e. consolidated) to act as one party to suppliers. With *control of input and output in vertical channel*, at least cooperation is needed in to integrate the new activities to those of Buyer. *Tax benefits, risk spreading, other financial reasons, benefits for management team* and *control benefits* will probably do not require integration of activities to take effect.

Another independent variable that may be of influence in the decision making process concerning the integration plan, is the *difference between support business activities and primary business activities*. Support activities contribute to the whole organization instead of directly to the products or services that form the output of the organization, as opposed to primary processes, that can be heavily dependent on the output. E.g. in the operations activity, a production facility cannot easily change the products it is making, because of made-to-fit production lines and other special, but costly investments. For support activities this can be far less a problem, e.g. in finance where the basic techniques are always the same. With this in mind, it may turn out that support activities will be integrated to a great extent in most cases.

It can be imagined that the *health of Target* is also a predictor for the degree and moment of integration. With health, the financial and operational status of the company is meant, where e.g. low efficiency and structural losses are indicators for an unhealthy company. If Target is in such a state, it can be attractive for Buyer to acquire Target, and to use its own expertise to improve the activities of Target in order to turn the tide. In contrast, if Target is as healthy as possible, there is little room for improvement by Buyer, and thus integration is less likely to occur or at a later moment in time.

Furthermore, some characteristics of the deal may influence the integration decisions. A characteristic is *whether the deal is friendly or hostile*. A deal is friendly when the deal is not discouraged by Target or Seller. The latter is the case at a hostile takeover. The consequence of a hostile takeover is that Buyer will have very limited access to Target before the deal is closed. Therefore, it can be expected that preparations can only start after closing, which sets back the moment of integration. Related to this, *the preparation phase* itself can be a great influence, regardless of the deal being friendly or hostile. Whether the deal is a merger or acquisition is also related to this characteristic.

Another deal characteristic is *whether Target is a whole company or a part of Seller*. In practice it can occur that Seller wants to digest a certain part of its organization, e.g. a particular product line or regional division. This is called a carve-out, since the entity is carved-out of Seller. The entity is then sold to another company. However, this entity can still be attached to Seller in multiple ways, e.g. it uses Seller's facilities such as the support business activities. If Target is a part of Seller like this, and Buyer acquires it, integration steps will likely be necessary, since e.g. Target cannot continue to use Seller's support activities after closing the deal. These activities may have to be transferred to Buyer, or may have to be newly designed. Furthermore, it can be expected that it will be more difficult to acquire the correct information from Target in a similar fashion as with the hostile takeover. Especially in the case where Seller is also a direct competitor of Buyer, it will not be eager to share much information. Moreover, Seller has its own business to run and might not want to waste precious resources on helping Buyer. As a result the moment of integration is likely to be delayed.

Finally, *the sector in which Buyer and Target operate* can be of influence. Companies that work in the semi public sector are often not as driven by making profit as other commercial sectors, since the companies are fulfilling a public task. This may imply a less strong desire to integrate fast and to a large extent and e.g. achieve economies of scale than would be the case with commercial companies.

The underlying reasons for the planned way of integrating are presented using a conceptual model. In such a model, the reasons are schematically depicted, with arrows indicating the influence on both the moment and degree of integration. The minus and plus symbols at the arrows represent a negative or positive influence on the axis. For the moment of integration, this means a push towards respectively earlier and later integration by the particular driver. For the degree of integration, the axis runs from intervention (i.e. no integration) towards consolidation (i.e. maximum integration). A minus represents a shift towards less integration, whereas a plus represents a movement towards more integration.

Figure 14 shows the expected influence of the independent variables that are listed in this subsection, using the conceptual model. The M&A deal drivers are highlighted with a darker fill color to distinguish them from the other deal characteristics.

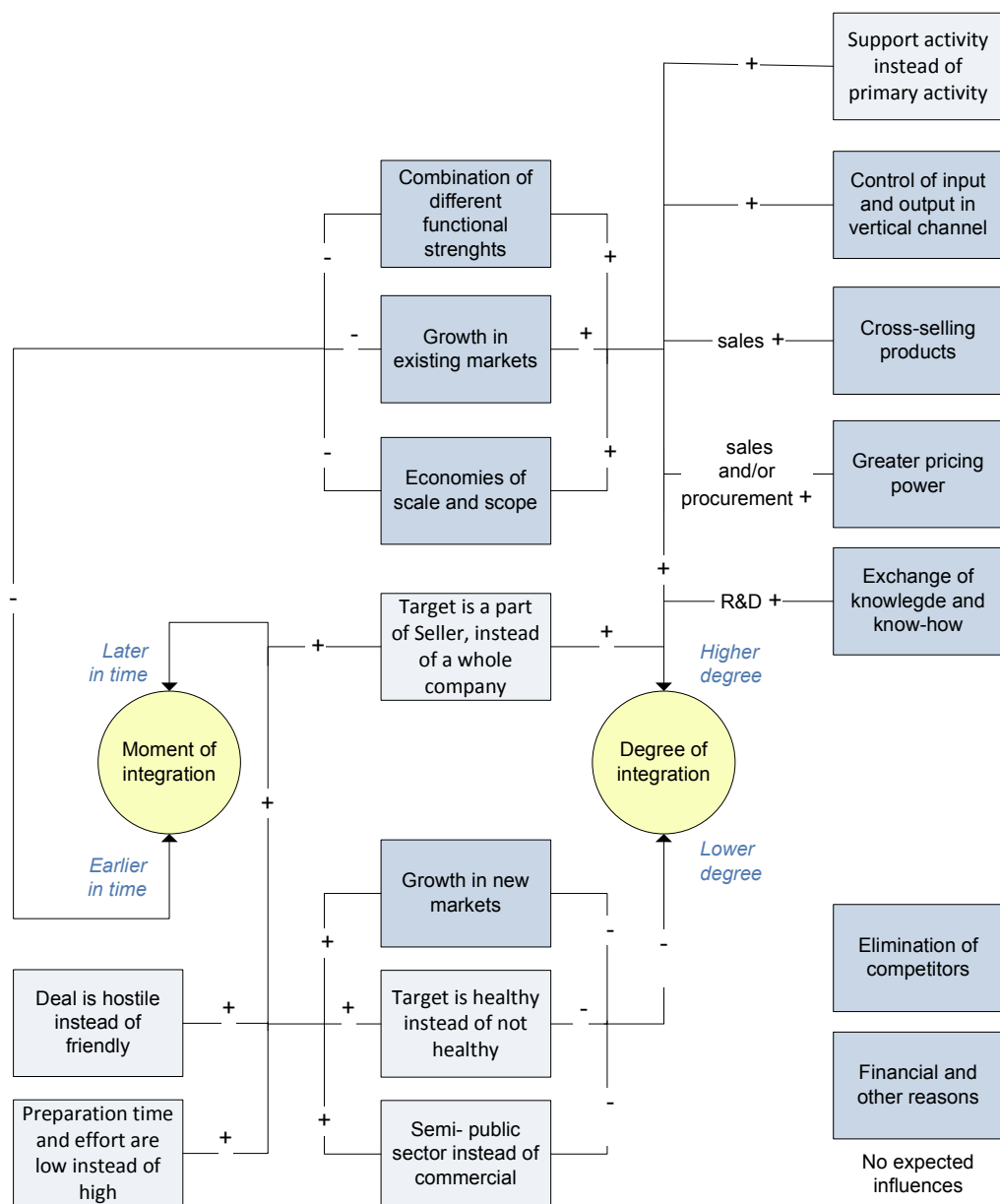


Figure 14 – Conceptual model of expected influences on moment and degree of integration

3.5 How do the plans change over time?

In order to answer the second set of research questions, it is measured whether the integration plan changes regarding the moment and degree of integration of each business activity. Figure 15 shows the framework used for presenting the results. It works analogue to Figure 13, with an X marking the right combinations of business activities and changes. Moreover, conceptual models are used to present the underlying reasons for change, similar to the conceptual model described above.

			Changes in integration			
			Change in moment		Change in degree	
			Integration forwarded	Integration delayed	Less integration	More integration
Different activities, based on Porter (1985)	Support	Management				
		Finance				
		IT				
		HR				
		R&D				
		Procurement				
	Primary	Operations				
		Logistics				
		Marketing				
		Sales				
		Service				

Figure 15 – Framework for changes in integration plan

3.6 Conclusion

In section three it has been shown how literature and newly created classifications have been used to form the research framework. The framework consists of the list of business activities, a scale of the moment of integration and a scale of the degree of integration. Together they represent the research questions on *what*, *when* and *to what extent* is integrated. To answer the question *why* certain decisions are made regarding what, when and to what extent is integrated, the underlying reasons for these decisions are also monitored. These reasons include – but are not limited to – seven independent variables that are expected to have an influence, such as the M&A deal driver. Conceptual models are used to present the findings on these underlying factors. For the second sub second research question on the changes of the integration plan a roughly similar framework and conceptual model are used.

From this research framework the interview questions are deducted. These are shown in Appendix I. In the interview questionnaire all research questions are addressed, as well as all possible influences that are listed in the previous sub section. This way, it is made sure that no potential valuable information is overlooked.

From the interviews the data is gathered for all six cases. The research framework is then used to structure and present this data per case in the next section, and as combined results in section five.

4. Data

In this section the different cases are described. Of each case an overview is given of the situation which has led to the integration of (parts of) two companies, and the key decisions regarding the integration plan are provided, thereby providing insights in which company parts are integrated, in which degree and in which timeframe. In addition, it is explored what the reasons are that have led to these decisions. Moreover, the integration process is investigated to discover unforeseen changes in the initial integration plan. A description of these changes is provided, as well as the causes for these changes in the plan.

4.1 Financial services case

In the financial services case Seller is forced to divest a small part of the mother company. Buyer is a company operating in the same sector as Seller (and Target), with roughly similar products, but a focus on different market segments. Also, geographically Buyer and Seller operate in different markets.

The takeover is certainly not friendly since Buyer becomes a direct competitor of Seller with the purchase of Target. Also, Target is only a very small company compared to Buyer. Therefore, the deal is a real acquisition and not a merger.

For Buyer the main driver for engaging in this acquisition is the following.

- pursuit of growth in new markets;
 - to increase market share and turnover
 - to be able to deploy new initiatives in this new region in the future

and to a minor extent

- pursuit of growth in existing markets;
 - to offer (existing) multinational clients extra service by having facilities in this new region

The time Buyer has to prepare the integration is not sufficient when taking into account the enormous amounts of effort that has to be made. Furthermore, the fact that Seller and Buyer become direct competitors because of the acquisition, leads to a situation where Seller is not eager to assist Buyer in its integration process. And since Target is still connected to Seller on many levels and to a great extent, this hinders the preparation.

At the time of closing Buyer has the following integration plan ready. Buyer wants to integrate all business activities of Target with its own activities. Buyer's way of working is planned to be leading in all cases, and all of Target's business activities are planned to be either consolidated or otherwise standardized to the processes of Buyer. The reason for this is the following.

- Buyer is a company that is eager to grow, and therefore it has made a large number of acquisitions throughout the years. In companies in the FS sector, almost all processes and business activities run on complex IT systems that are heavily interconnected. To make sure the new acquisitions can be easily controlled, and also easily interweaved with the rest of Buyer, it is desirable to have IT systems that are as similar as possible. Therefore, business activities are rarely left untouched and are often completely assimilated by the ways of working of Buyer. This way, maximum compatibility between the different parts of the company is guaranteed and future changes in operations can be rolled out more easily. Moreover, this increases the benefits of economies of scale.

The plan is to realize this integration in 2,5 years time. No company parts are left out of scope, or exempt from integration. Though still within the planning horizon, 2,5 years is an abnormal long time period. This unusual long timeframe was chosen because of the following reasons.

- As mentioned, almost all processes and business activities run on complex IT systems that are heavily interconnected. The nature of the business (i.e. large amounts of money) leads to a situation where it is of the utmost importance that these IT systems run without errors and without security issues. Developing, testing and implementing IT systems will cost a great amount of capacity of the IT department, which is scarce, making it the main reason for the 2,5 year timeframe.
- Since Seller is a direct competitor of Buyer, and because Seller has its own resource constraints, there is a possibility that Seller will not provide necessary data fast or with great care. Because IT capacity is the weakest link, this problem has not been an influence on the set timeframe of 2,5 years, but it would have if IT capacity would have been sufficient.

Though 2,5 years does not seem like a short period, it is in fact as fast as is possible. Buyer had two important reasons not lose time with the integration.

- Because of the complexity of (the IT systems of) the business activities of Target, there are many dependencies between Target and Seller. For almost all day to day processes, the services of Seller are needed to keep Target operational, ranging from providing Target with data, or letting Target's processes run on Seller's IT systems. In so called Service Level Agreements (SLAs) it is agreed that Seller offers these services to Target/Buyer in exchange for a certain fee. Considering that this fee is above the costs of Buyer being able to do it itself, Buyer logically wants to be free of these SLAs as soon as possible. Thus, fast integration is highly desired.
- The fact that Buyer and Seller are competitors in the same market, also encourages Buyer to integrate as fast as possible. That way Buyer can finally work independent, without any risk of e.g. leaking competitive information. This craving for independence is also a large reason to accelerate integration where possible.

			Moment and degree of integration						
			Moment			Degree			
			ASAP	WPH, not ASAP	BPH /No integration	Intervention	Coordination	Standardization	Consolidation
Different activities, based on Porter (1985)	Support	Management	X						X
		Finance	x	X					X
		IT	x	X			x		X
		HR	x	X				x	X
		R&D (not applicable)							
		Procurement (not applicable)							
	Primary	Operations		X					X
		Logistics (not applicable)							
		Marketing		X				x	X
		Sales	x	X				X	
		Service		X				X	

Figure 16 – Integration of support and primary activities, case FS

When looking at the case in more detail, on a business activity level, it can be seen that the activities which are heavily dependent on the IT systems are planned for integration within the planning horizon, but not ASAP. These activities include finance, IT itself, operations, marketing, sales and service. An overview is shown in Figure 16.

As expected, management is consolidated as soon as possible, since two managers on one department is not an option. There are three other (parts of) activities for which IT capacity is ensured to realize their integration ASAP.

The first one is a part of the Finance activity, namely the reporting of financial overviews. Since Target and Buyer are now one, financial reporting has to be merged into one document. And since reporting deadlines are often on a monthly or quarterly basis, reports are consolidated ASAP. As stated, the rest of the Finance activity is planned to be integrated in a later stage, because of insufficient IT capacity.

The second part of a business activity that is to be integrated ASAP is HR. The reason that the integration of a part of HR has been accelerated is the nearing expiration of the collective labor agreement. After expiration, Seller does not want to cater this part of HR for Target anymore. Therefore, a special SLA has been put in place. Whereas other SLAs run for two and a half years, the SLA for HR is only valid for a much shorter period, before which the integration must be completed. The rest of HR is integrated within the normal planning horizon. Though most of Target's HR is consolidated with Buyer's processes, a part of HR is only standardized and remains locally active. This mainly concerns region specific processes, such as hiring new employees.

The third part of a business activity that is integrated ASAP, is a part of Sales. The reason for quick integration is the fear of losing clients to competitors. It has therefore been decided to make haste with the integration, to be able to serve these clients better with products of Buyer.

As for the degree of integration, the goal is to consolidate as much as possible. Processes of Target are interweaved with processes of Buyer, while not keeping them separate for the different regions. For example, the marketing business activity of Target is integrated in such a way that employees are placed in the global marketing department of Buyer, catering all regions including – but not limited to - Target's region. This desire to consolidate holds for all activities, except for a part of HR (as mentioned), for Sales and for Service. Since these latter activities imply direct contact with the client, and since Target operates in a region that is not already catered by Buyer, the departments cannot be brought together. Therefore, it is decided to only standardize them.

To put the reasons for the moment of integration and the degree of integration in an overview, the conceptual model of Figure 17 has been created. The minus and plus symbols represent a negative or positive influence on the axis. For the moment of integration, this means a push towards respectively earlier and later integration by the particular driver. For the degree of integration, the axis runs from intervention (i.e. no integration) towards consolidation (i.e. maximum integration). A minus represents a shift towards less integration, whereas a plus represents a movement towards more integration.

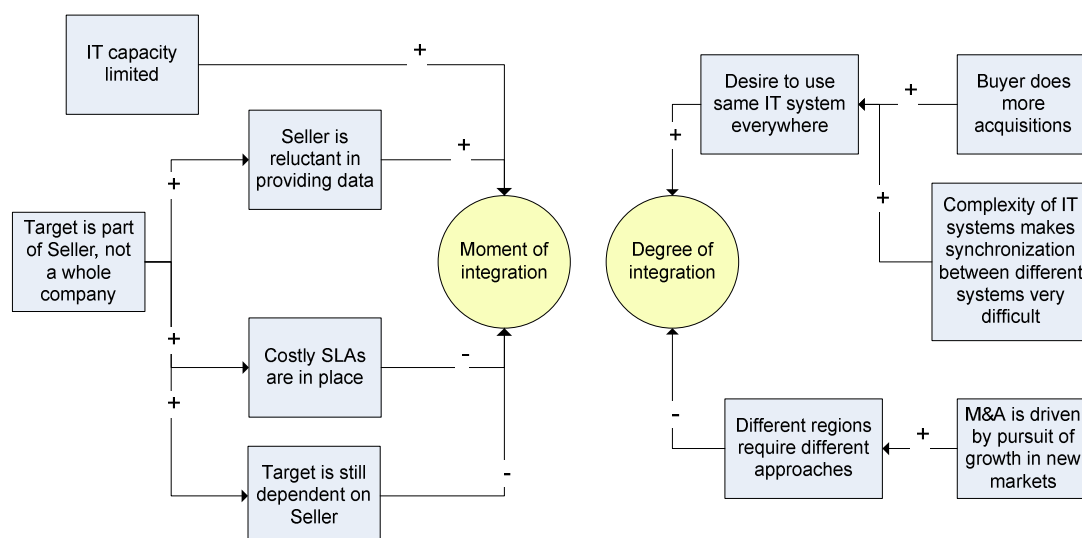


Figure 17 – Conceptual model of moment and degree of integration, case FS

When looking at the *changes in the integration plan*, a number of observations can be made. As stated in the previous section, a part of the Sales activity is integrated as soon as possible. This project is delayed by two months.

- The reason is the lack of communication between two departments in the early phases of the preparation. Because one of the departments is not involved in the early scoping of the project, the department does not know that the project will consume so much time. The lack of anticipation causes a work overload in the later phase of the project, resulting in a delay.
- Additionally, the lack of cooperation of Seller and the bad quality of data that was provided by Seller, creates an extra delay. Therefore, the project cannot be finished before the summer holiday period, resulting in an extension of the delay with another one and a half months.

Furthermore, the Marketing activity has a changed planning. Though not that dependent on IT systems, Marketing is initially planned to be integrated in a timeframe of 2,5 years. The plan is to consolidate and to fit the employees in the global marketing department of the buyer. However, plans change because of three reasons.

- Target has a different market focus than Buyer, with different types of clients. Also, Target is operating in a different region. This has as a consequence that the way the products of Target are marketed to the clients, differs from the way it is done at Buyer. Buyer's manager comes to realize this and decides to not consolidate the Marketing activity of Target completely, but to let a small part of it be somewhat more independent and focused on the region and clients of the target.

The Marketing activity of Target is a relatively small group. After a short period of time, almost all steps are completed to be able to fully integrate. Because they are now waiting for the integration to happen, the employees begin to worry about their future at the company. This unrest is noticed by the manager, and he decides to speed up the integration process to counter the unrest.

- Since the processes of the Marketing activity are not heavily dependent on IT systems, it is possible to accelerate the integration.

A graphical representation of the changes and the cause of these changes can be seen in respectively Figure 18 and Figure 19.

			Changes in integration			
			Change in moment		Change in degree	
			Integration forwarded	Integration delayed	Less integration	More integration
Different activities, based on Porter (1985)	Support	Management				
		Finance				
		IT				
		HR				
		R&D (not applicable)				
		Procurement (not applicable)				
	Primary	Operations				
		Logistics (not applicable)				
		Marketing	x		x	
		Sales		x		
		Service				

Figure 18 – Changes in integration plan, case FS

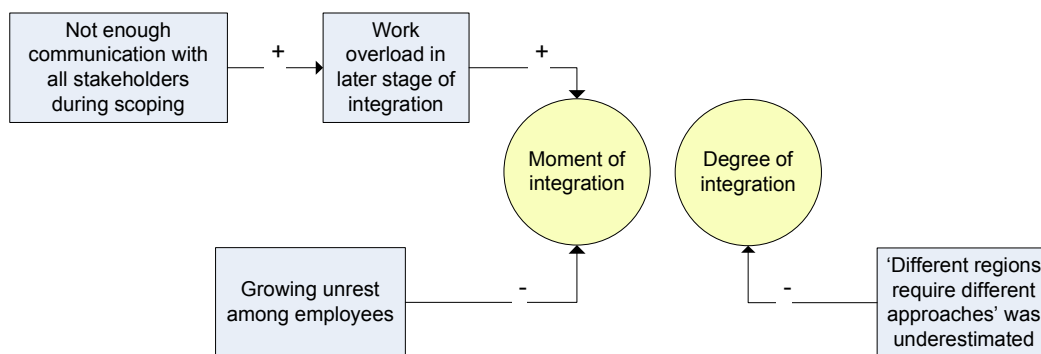


Figure 19 – Conceptual model for changes in integration plan, case FS

4.2 Agricultural production case

In the agricultural production case Target operates in one of the same sectors as Buyer. However, they are geographically dispersed. Target, a family owned company, is relatively small compared to Buyer, which is under the control of a private equity firm. Target is active in only one country, whereas Buyer operates in twenty six different countries and has more than thirty times the employees Target has.

The takeover is a friendly acquisition, though it has required a lot of effort to persuade the owner to sell his business.

For Buyer the main driver for engaging in this acquisition is the following.

- pursuit of growth in new markets;
 - to increase market share and turnover, more than would be possible with merely organic growth, i.e. the growth of Buyer itself without takeovers taken into account
 - to be able to deploy new initiatives in this new region in the future

And to a much lesser extent

- combination of different functional strengths (in the future, certain);
 - to use the procurement skills of Buyer to increase effectiveness of the procurement process
- cross-selling products (in the future, uncertain);
 - to have good opportunities for cross-selling other products of the buyer in the new geographical market, thereby making use of Target's customer file
- realizing economies of scale and scope (in the future, uncertain)

The reason for choosing this specific Target is the following.

- the country in which Target operates is highly interesting for Buyer;
 - one of the mayor countries involved in the sector, where Buyer is not yet active
 - better possibilities for export to a nearby country, which is a top consuming market
- Target is healthy which makes profit;
 - no need to have much knowledge of the country, or need to make much effort to build up company and customer file, since Target is already running smooth

The period between signing and closing of the deal is one month. Before closing the deal, Buyer has limited access to information of Target, thereby making early preparations difficult. The reason for this is that according to the family owner, it would cause unnecessary unrest for Target's employees if a thorough investigation of Target was started by Buyer. After the acquisition, Buyer has enough time to make up for this, since Target is already a healthy company.

The integration plan at time of closing is not yet fully completed. After closing the deal, Buyer wants to get into control of Target. Urgent actions include the counting of stock, revising health and safety procedures and making adjustments to comply with tax regulations.

The plan of Buyer has always been to not fully integrate Target with its own organization. The reason for this is the following.

- The main driver for the deal is to pursue growth in new countries. Since Buyer does not already operate in Target's market, and the two companies are geographically far dispersed, there are a limited number of integration steps *possible*. This is also due to the nature of the companies. Both are in the production sector, in which most steps are physical that are geographically bound, and thus only suitable for integration if entire production processes are transferred. This is not the desire in this case.
- Moreover, there is little *need* for integration. Target already functions as a healthy and prosperous local player, with relatively little room for improvements. Since different regions also require different approaches, e.g. concerning sales, it would likely have a negative effect if Buyer's procedures would be implemented at Target.

The business activities that are not (yet) integrated are all primary activities, i.e. operations, logistics, marketing, sales and service. Though cross-selling might be an option in the future, in the current planning horizon there is no urge to implement this. The operations business activity is integrated with a number of best practices from Buyer, though Buyer does not wish to change too much, since it does not want to risk good employees leaving Target.

At the moment of closing, it is still unclear to what extent finance and IT will be integrated. Buyer has a SAP IT system in place, but implementing this in Target's organization is costly. A feasibility analysis is started to study whether integrating finance and IT would be a good investment. Because of this lack of clarity, the integration is perceived as to be beyond the planning horizon. At the moment of closing, finance reports are manually converted to the reporting standards of Buyer. If the SAP systems are eventually integrated with Target, finance will also be standardized.

Management wants to integrate procurement on a cooperation level. However, though it is certain that this integration will take place someday, the integration process is beyond the planning horizon. In other support business activities small adjustments are made. First, the old top management (i.e. the family owner) is replaced by a manager of Buyer, though the family owner will keep on playing a role as advisor to the board. The rest of the management is unaltered. Concerning the HR activity, Buyer will immediately provide HR services for the top manager of Target (which is an employee of Buyer), whereas the other HR functions remain local. Furthermore, some best practices from Buyer are implemented in Target's ways of working. This is done ASAP. Again, Buyer does not wish to change much, for fear of employees leaving the company.

R&D is also kept mainly unaltered at Target firm, except from knowledge sharing between Buyer and Target regarding some R&D departments.

To put the integration of business activities in an overview, Figure 20 has been created. A representation of the different reasons for the moment of integration and the degree of integration is shown in Figure 21.

			Moment and degree of integration						
			Moment			Degree (Schweiger, 1999)			
			ASAP	WPH, not ASAP	BPH /No integration	Intervention	Coordination	Standardization	Consolidation
Different activities, based on Porter (1985)	Support	Management	x		X	X			x
		Finance	x		X	X			x
		IT			X	X			
		HR	x		X	X	x		
		R&D		x	X	X	x		
		Procurement			X		X		
	Primary	Operations		x	X	X	x		
		Logistics			X	X			
		Marketing			X	X			
		Sales			X	X			
		Service			X	X			

Figure 20 – Integration of support and primary activities, case AP

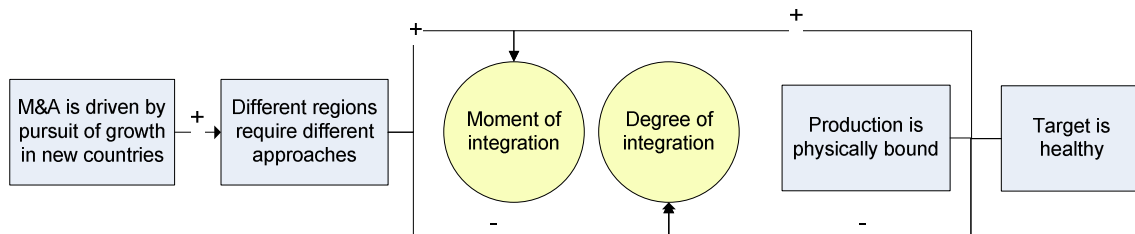


Figure 21 – Conceptual model of moment and degree of integration, case AP

There are no changes in the integration plan.

4.3 Retail case

In the retail case, both Buyer and Target are active in the retail sector, in adjoining countries. The takeover is a friendly merger, in which a balance between Buyer and Target is pursued. For Buyer and Target the main driver for engaging in this acquisition is the following.

- Realizing economies of scale and scope;
 - to better cope with a market that is under pressure

The time for preparation is enough, with all stakeholder parties being involved in the preparation process.

The plan is to integrate as much as possible between Target and Buyer, while not favoring a particular company. This is due to the following.

- Since the deal is all about saving money to cope with a market that is under pressure, realizing economies of scope and scale is pursued. As a result, the companies want to integrate wherever possible. This is possible since the two companies are located relatively close to each other – though they are in different countries. The latter results in some regional differences remaining, which has its impact on the degree of integration that is possible at some business activities.
- Since the deal is set up as a merger between Buyer and Target, as opposed to an acquisition where one party has more power, the plan is to integrate such that a fine balance is kept between the two companies and that the final organization is a mix of both.

This is reflected in the integration plans of the different business activities. In finance, the reporting is immediately consolidated on the highest level. The rest of the finance activity is standardized, where the procedures of Buyer are leading since they are better. Due to differences in regulations in the two countries, full consolidation is not desirable. Since in both companies the procurement business activity is regarded as a function of finance, the same integration plan applies to it.

IT is the critical path when it comes to the integration. There are different versions of SAP, with the most recent at Target. Which SAP version will be leading still awaits further investigation. However, it is already decided that the one of two systems will be chosen, and that IT will be fully consolidated.

HR is centralized and completely consolidated. R&D is not applicable in this case. As for the primary business activities, it is found that operations – i.e. the handling of orders – is physically brought together and thus consolidated. Logistics is also consolidated; with Target's system regarded as most efficient, all logistics related processes are moved to Target.

Marketing, sales and service are integrated in a much lesser extent. All marketing processes remain separately at Buyer and Target, since there is no overlap in customers of the two companies. Back office processes such as handling client information in the SAP systems is standardized, but direct

client contact is not. Further integration would only raise the risk of processes going wrong, with no real benefits to justify this extra risk.

In the sales activity a small number of back office processes are standardized, but client contact is kept separate. Furthermore, best practices are exchanged, which is a characteristic of the coordination degree of integration. Service is standardized, but will remain separate for both countries.

The integration of business activities is presented in Figure 22. A representation of the different reasons for the moment of integration and the degree of integration are shown in Figure 23.

			Moment and degree of integration						
			Moment			Degree (Schweiger, 1999)			
			ASAP	WPH, not ASAP	BPH /No integration	Intervention	Coordination	Standardization	Consolidation
Different activities, based on Porter (1985)	Support	Management	X						X
		Finance	x	X				X	x
		IT		X					X
		HR		X					X
		R&D (not applicable)							
		Procurement		X				X	
	Primary	Operations		X					X
		Logistics		X					X
		Marketing		X		X		x	
		Sales		X			X	x	
		Service		X				X	

Figure 22 – Integration of support and primary activities, case R

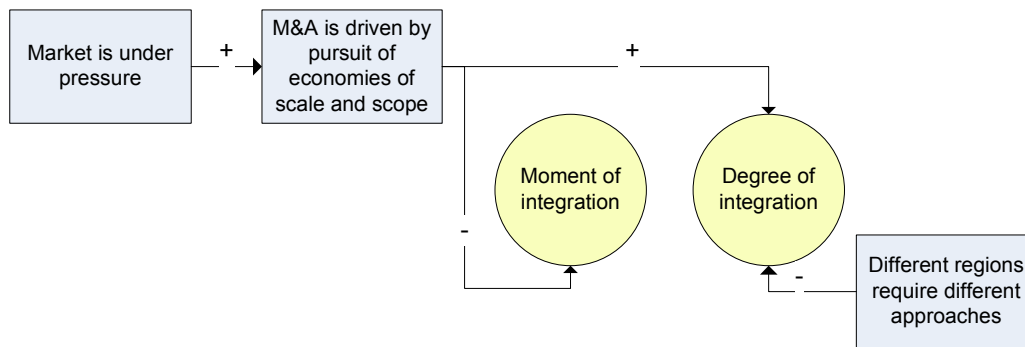


Figure 23 – Conceptual model of moment and degree of integration, case R

There are two delaying factors in the integration process.

- The integration of the two companies has to be approved by the works council and the trade unions. The long period of time it takes for these entities to make a decision and to approve with the proposed changes and integration steps, causes a delay in the whole process.
- Capacity problems in the IT department cause the integration deadline for IT integration to be postponed with three months. This has no further implications for the integration of other business activities.

One business activity is integrated sooner than initially planned.

- The integration of the logistics processes is moved forward with two months, because unrest has been growing among employees that are unsure about their jobs. To counter this, it is decided to accelerate the decision making process. As a result, it is also possible to integrate sooner.

Graphical representations of the changes and the cause of these changes are shown in Figure 24 and Figure 25.

			Changes in integration			
			Change in moment		Change in degree	
			Integration forwarded	Integration delayed	Less integration	More integration
Different activities, based on Porter (1985)	Support	Management				
		Finance		x		
		IT		X		
		HR		x		
		R&D (not applicable)				
		Procurement		x		
	Primary	Operations		x		
		Logistics	X			
		Marketing		x		
		Sales		x		
		Service		x		

Figure 24 – Changes in integration plan, case R

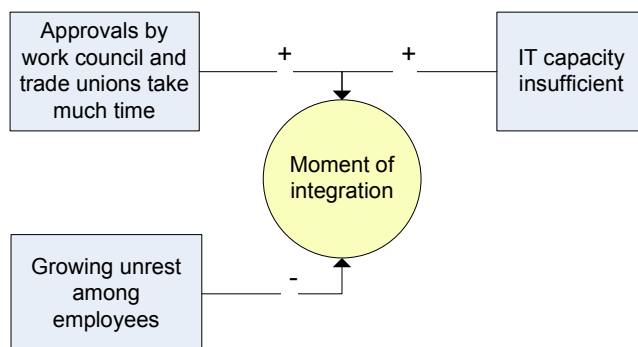


Figure 25 – Conceptual model for changes in integration plan, case R

4.4 Public housing case

Both Buyer and Target are active in the public housing sector, a sector that is heavily regulated and financially controlled by the government. The takeover is a friendly merger, in which a balance between Buyer and Target is pursued. However, the company that is referred to as Buyer in this case is slightly larger than Target.

For Buyer and Target there are three main drivers for engaging in this merger. They are the following.

- Realizing economies of scale and scope
- Achieving greater pricing power;
 - to have a better position towards suppliers (e.g. project developers)
- Risk spreading
 - to have better risk spreading by having a larger portfolio

There is sufficient time for preparations. However, little effort is put into setting up integration plans and agreeing on deadlines.

From the beginning the plan has been to integrate as much as possible between Target and Buyer, provided that the quality of the product will remain high. This is especially desired in all processes related to client contact, since housing is such an important factor people's lives.

This and other factors have their impact on the integration plan.

- Though two of the main goals of the merger are related to decreasing costs, the financials of both companies are in order. Because of this, there is no urgent need for action. As a result, the initial timeframe of integration is (initially) long, and no hurry is made with integrating.
- The desire to never let the quality of the product and the communication with clients decrease, are safeguarded by long and thorough studies. This is another factor that causes the integration to not take off immediately.
- The timeframe of the integration is furthermore extended due to the idea that business as usual may not suffer from the integration process.
- Since the deal is set up as a merger between Buyer and Target, as opposed to an acquisition where one party has more power, the plan is to integrate such that a fine balance is kept between the two companies and that the final organization is a mix of both. Despite this ambition, Buyer, which is larger and more advanced in certain areas, is leading when it comes to the final state of the organization and procedures.

This is reflected in the integration plans of the different business activities. Apart from management and financial reporting, no integration is planned to be realized ASAP.

The support activities are initially planned to be integrated within the time horizon. The desired integration degree for IT is consolidation, whereas the desired integration degree for finance, HR

and procurement is standardization. There is one project that is an exception for this. In the finance business activity, there are processes related to the investment of funds. In the newly formed state of the organization, these investment processes are to be consolidated into one, new department with more responsibilities and decision-making authorities than before.

Of the primary business activities, operations and marketing are planned to be integrated between the two companies. Operations are standardized, whereas marketing is consolidated. Sales and services are not (yet) integrated, and R&D is not applicable in this case.

The integration of business activities is presented in Figure 26. A representation of the different reasons for the moment of integration and the degree of integration are shown in Figure 27.

		Moment and degree of integration						
		Moment			Degree (Schweiger, 1999)			
		ASAP	WPH, not ASAP	BPH /No integration	Intervention	Coordination	Standardization	Consolidation
Different activities, based on Porter (1985)	Support	Management	X					X
		Finance	x	X			X	x
		IT		X				X
		HR		X			X	
		R&D (not applicable)						
		Procurement		X			X	
	Primary	Operations		X			X	
		Logistics (not applicable)						
		Marketing		X				X
		Sales			X			
		Service			X			

Figure 26 – Integration of support and primary activities, case PH

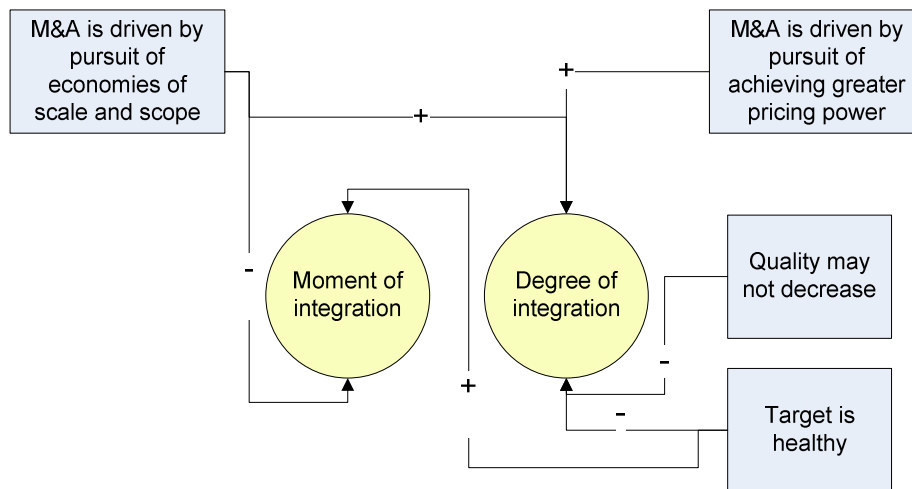


Figure 27 – Conceptual model of moment and degree of integration, case PH

A number of changes are made in the PMI plan. The integration of all business activity is moved forward, and some business activities are integrated in a higher degree. This is a result of the following.

- Due to the financial crisis resulting from the credit crunch, revenues are declining. More important, the government is likely to initiate cost-cutting in the public housing sector, which is heavily dependent on governmental financial aid. As a result, the realization of economies of scale and scope becomes *needed*, instead of merely *desirable*.
- To cope with the negative effects of the financial crisis, it is decided to also integrate the sales and service business activities. They will be standardized and if possible consolidated.

The integration plan is adjusted to realize the economies of scale and scope. But despite the need for quick integration, the execution of the revised integration plan is delayed. The reasons for this delay are the following.

- Deadlines are not taken very strictly and employees do not make enough time to help the integration process. In the beginning, there is not enough awareness among employees and even management that the problems are to be taken seriously.
- The creation of the new investment department takes more time than initially planned. Management has trouble to set the boundaries of authority for this new department.

Despite the delays, integration is still set to be achieved sooner than initially planned.

Graphical representations of the changes and the cause of these changes are shown in Figure 28 and Figure 29.

			Changes in integration			
			Change in moment		Change in degree	
			Integration forwarded	Integration delayed	Less integration	More integration
Different activities, based on Porter (1985)	Support	Management				
		Finance	X			
		IT	X			
		HR	X			
		R&D (not applicable)				
		Procurement	X			
	Primary	Operations	X			
		Logistics (not applicable)				
		Marketing	X			
		Sales	X			X
		Service	X			X

Figure 28 – Changes in integration plan, case PH

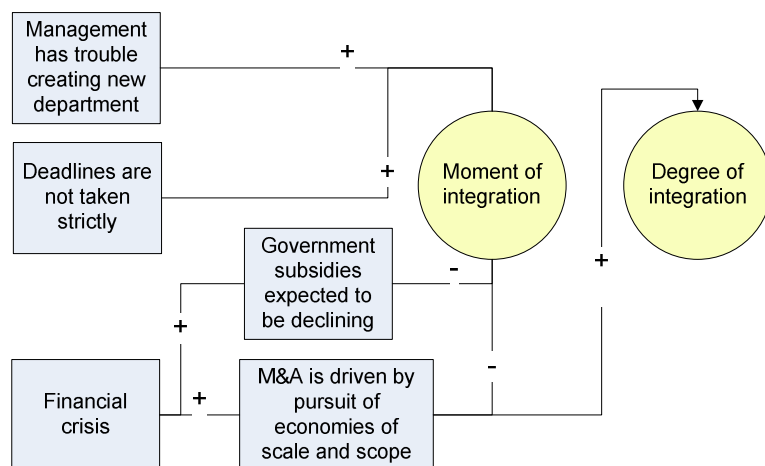


Figure 29 – Conceptual model for changes in integration plan, case PH

4.5 Energy and Utilities case

In the Energy and Utilities case, Buyer and Target are active in the same industry, though in different countries. Target is a part of Seller, which is a direct competitor of Buyer.

- The main reason the deal is made is due to external pressure, of which the details cannot be disclosed due to confidentiality.

Another less important driver of the deal is the following.

- Pursuing growth in new markets

The deal is an acquisition, where mainly production facilities are purchased by Buyer. The time for preparation is enough. Target is cooperating after the deal, but Seller is reserved in giving Buyer access to information.

There are no considerable synergies – such as realizing economies of scale and scope – achievable when integrating Target's organization with the organization of Buyer. However, there is need for transitioning the systems and procedures. Because Target is a part of Seller, and Seller is a direct competitor of Buyer, both parties do not desire to make use of each other's systems, technology and procedures. This has the following implications.

- After closing the deal, Target is operating as it used to do under the control of Seller. The temporary use of Seller's systems is agreed upon in SLAs.
- Since these SLAs are costly, and Buyer and Seller do not want to spill information to their competitors, Buyer wishes to implement most of its own procedures and develop new systems as soon as possible. Moreover, speed in the integration process is desired because the organization itself is evolving over time. Since the future state is based upon this current state, the integration has to be done before the organization has changed such that new systems do not fit anymore.
- However, much is dependent on ICT. Since these systems have to comply with strict safety regulations and ICT capacity is low, they cannot be easily or quickly changed.

Figure 30 and Figure 31 show the integration models. The specific integration plans for the different business activities are the following. In finance, the reporting is immediately consolidated on the highest level. The rest of the finance activity is left independent, since it is adjusted to the local situation and no further benefits are gained when replacing it with Buyer's procedures or systems.

IT is planned to be integrated in many areas, as explained. However, those systems that have no connection to Seller's systems are kept if they are good enough, or updated with best practices of Buyer. The future state of the IT business activity is a combination of a best-of-two-worlds state and a new system, with many parts standardized. Target will continue to have its own IT department.

In the business activity HR, procedures and working conditions are harmonized and standardized with those of Buyer. They are not consolidated, since the HR processes of Target will be handled by Target in the future as is the case now. Procurement and R&D are consolidated. Both activities were previously executed by Seller, and are now taken over by the responsible departments in Buyer's own organization. The integration is executed as soon as possible to avoid high costs of SLA's and to decrease dependency on Seller.

As for the primary activities, operations are implemented with a number of best practices of Buyer, which is a characteristic of cooperation. Most of the business activity remains unaltered. This is because local regulations of the country demand specific procedures that were already in place, and differ from procedures of Buyer. Since the activity heavily depends on IT, it is not integrated quickly. Marketing – as far as this is applicable – together with sales and service are kept on a local level and unaltered. The business activity logistics is not applicable in this case.

		Moment and degree of integration						
		Moment			Degree (Schweiger, 1999)			
		ASAP	WPH, not ASAP	BPH /No integration	Intervention	Coordination	Standardization	Consolidation
Different activities, based on Porter (1985)	Support	Management	X					X
		Finance	x	X	X			x
		IT		X	x	x	X	
		HR		X			X	
		R&D	X					X
		Procurement	X					X
	Primary	Operations		x	X	x		
		Logistics (not applicable)						
		Marketing			X			
		Sales			X			
		Service			X			

Figure 30 – Integration of support and primary activities, case EU

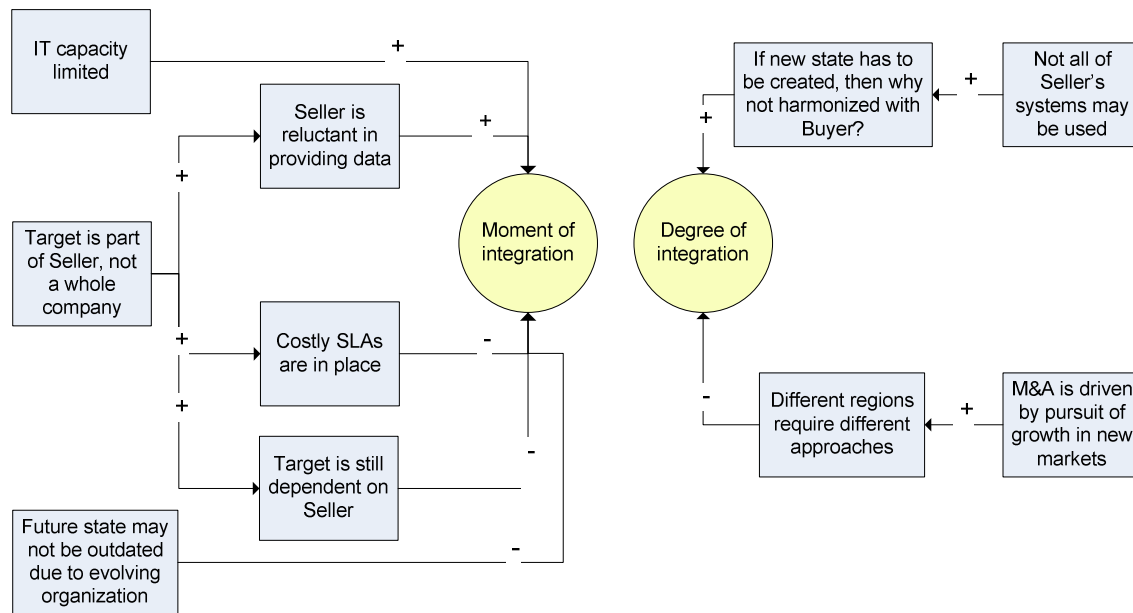


Figure 31 – Conceptual model of moment and degree of integration, case EU

When looking for changes in the integration plan there are a number of delays in the PMI process that can be identified.

- The harmonization of working conditions, as part of the HR business activity integration, is delayed. The reason for this is a lack of sense of urgency. Deadlines have not been lived up to, and as a result too little time is left for all necessary work. The SLA for HR is extended for up to one year.
- Projects in the IT business activity are delayed, and because of the integration steps in the finance and operations activity also delayed. This is due to the following reasons. First, IT capacity turned out to be insufficient. Second, miscommunication and the fact that information has not been passed on correctly, because of little cooperation of Seller. Third, difficulty in deciding who the application owner will be has resulted in inefficient ways of working. Fourth, because of the high security demands additional modules have to be implemented which were not included in the initial planning.

Graphical representation of the changes and the cause of these changes are shown in Figure 32 and Figure 33.

			Changes in integration			
			Change in moment		Change in degree	
			Integration forwarded	Integration delayed	Less integration	More integration
Different activities, based on Porter (1985)	Support	Management				
		Finance		X		
		IT		X		
		HR		X		
		R&D				
		Procurement				
	Primary	Operations		X		
		Logistics (not applicable)				
		Marketing				
		Sales				
		Service				

Figure 32 – Changes in integration plan, case EU

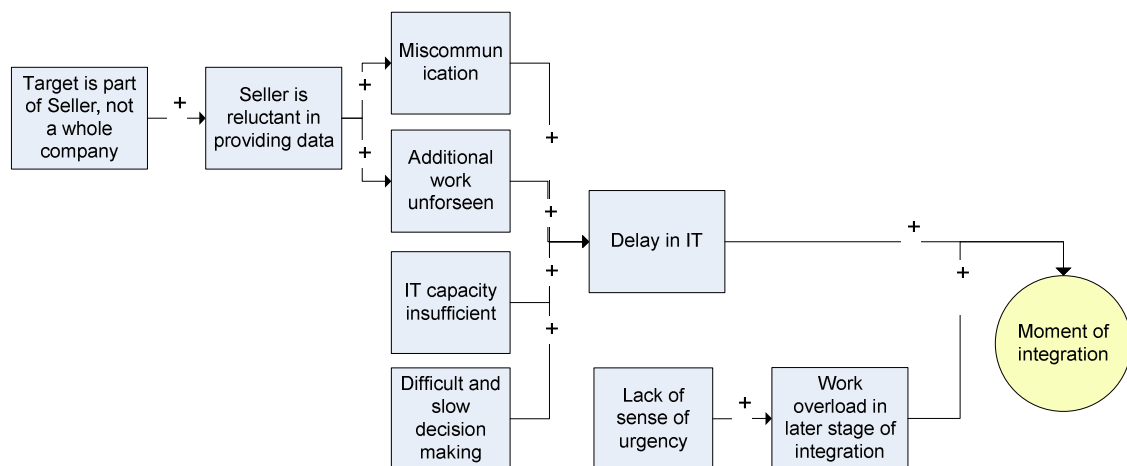


Figure 33 – Conceptual model for changes in integration plan, case EU

4.6 Healthcare case

In the Healthcare case, Buyer and Target are active in the same industry, but in different cities that are located nearby each other. Both parties consist of multiple healthcare institutions with their own specialties, though there is also overlap between some of the services they provide. The deal is set up as a friendly merger that is pursued by both Buyer and Target together. In recent years, an increasing number of healthcare institutions decided to join forces with other organizations. Buyer and Target in this case have the feeling they also need to merge to operate together. This is decided without first formulating the goals of the merger. A number of years pass before the actual merger takes place. The financial crisis and the fear that the government will cut on healthcare subsidies, move the planned integration process forward in time. It is then formulated that realizing economies of scope and scale will be a driver for the merger and the deal is signed and closed.

Thus, the main drivers behind the deal are the following.

- The trend in the public housing sector is to join forces
- Realizing economies of scale and scope;
 - to better cope with the possibility of budget cuts by the government, as a result of the financial crisis

There is enough time for preparation, and both parties are involved in the preparation process.

The integration plan is as follows.

- Both Buyer and Target are non-profit organizations. They are focused more on providing services of good quality, than on minimizing costs. It is therefore decided that the economies of scale and scope are only to be found in cutting in the overhead functions by joining them together. The actual healthcare programs, i.e. the primary operations business activity, are not integrated, to avoid a decrease in quality.
- Furthermore because of this, and despite the governmental subsidy cuts that are expected, there is a lack of urgency to react quickly. The integration process is therefore not bound to strict deadlines.

The specific integration for the different business activities are the following.

Only the CEO is appointed as soon as possible. The rest of the top management board is decided on much later; more than half a year is planned for this step. The reason for this long period is that the board is formed with members of both merging parties, which consumes much time because of all the politics involved.

Business activities finance, HR and procurement – all support functions – are planned to be consolidated to cut costs. No strict deadline is set. Only the financial reporting is consolidated on high level as soon as possible. IT is planned to be consolidated, for both the support activities as for

the primary (i.e. healthcare) activities. For one particular healthcare department, the IT system is not integrated. The reason for this is that this particular department has no overlap with other departments and therefore does not need to be included in the IT system.

R&D, as well as operations, marketing, sales and service are kept unaltered. Logistics is not an applicable business activity in this case.

Please refer to Figure 34 for the integration overview, and Figure 35 for the conceptual model.

		Moment and degree of integration						
		Moment			Degree (Schweiger, 1999)			
		ASAP	WPH, not ASAP	BPH /No integration	Intervention	Coordination	Standardization	Consolidation
Different activities, based on Porter (1985)	Support	Management	x	X				X
		Finance	x	X	X			x
		IT		X	x			X
		HR		X				X
		R&D			X			
		Procurement		X				X
	Primary	Operations			X			
		Logistics (not applicable)						
		Marketing			X			
		Sales			X			
		Service			X			

Figure 34 – Integration of support and primary activities, case HC

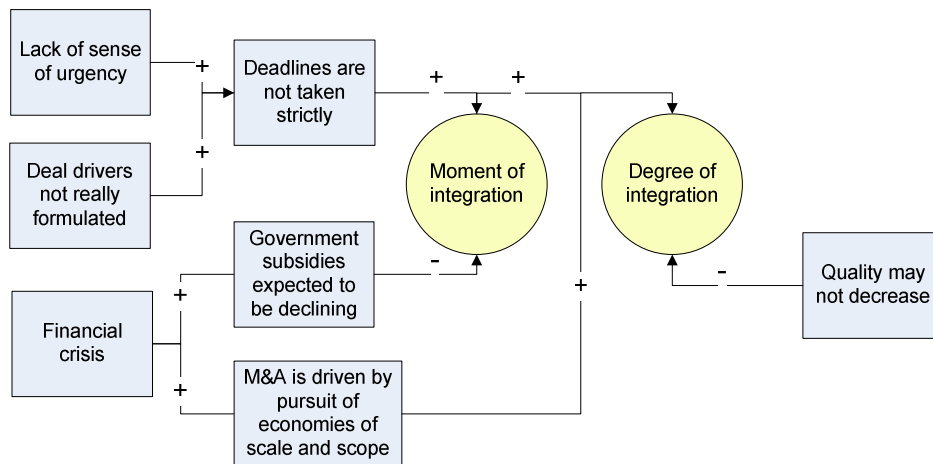


Figure 35 – Conceptual model of moment and degree of integration, case HC

During the integration process, a great change is made in the initial integration plan.

- A half year after closing the deal, the effect of the financial crisis becomes more visible. Management begins to understand that large budget cuts by the government are unavoidable. It is decided to speed up the integration. Moreover, a plan is made to also integrate the primary processes. R&D, operations, marketing, sales and service are to be standardized for most departments. They are not to be consolidated.

Even with the integration process speeded up, many projects are delayed. These are the following.

- The appointment of the second layer of management and the formulation of the new processes is delayed by the works council. These entities take a lot of time to review the plans made by the integration team, during which no managers and employees can be officially transferred to their new positions.
- This causes unrest among the employees. As a result, this causes the work council to take even more time to review the new processes, since they want to make sure the employees end up right. This causes a great delay in the implementation of the newly integrated organization.
- Politics inside the organizations further more trouble the integration process. In healthcare, the professionals often form small businesses inside a bigger organization. Since the professionals want to stay in control of the way they work, they try to interfere with the integration process.
- Limited IT capacity causes the integration of IT to be delayed.

Despite the delays, integration is still set to be achieved sooner than initially planned.

The changes and the cause of these changes are presented in Figure 36 and Figure 37.

			Changes in integration			
			Change in moment		Change in degree	
			Integration forwarded	Integration delayed	Less integration	More integration
Different activities, based on Porter (1985)	Support	Management				
		Finance	X			
		IT	X			
		HR	X			
		R&D	X			X
		Procurement	X			
	Primary	Operations	X			X
		Logistics (not applicable)				
		Marketing	X			X
		Sales	X			X
		Service	X			X

Figure 36 – Changes in integration plan, case HC

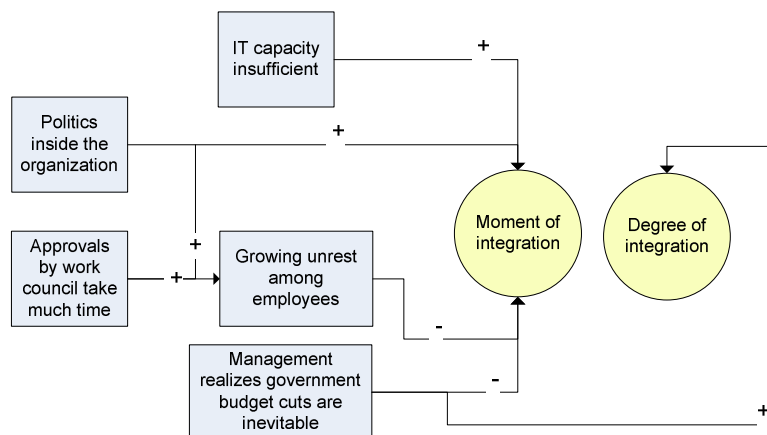


Figure 37 – Conceptual model for changes in integration plan, case HC

5. Results

From the six cases it can first of all be concluded that no situation is exactly the same, and therefore no post merger integration process is exactly the same. In this section notable differences, as well as similarities are presented and analyzed.

To answer the first sub research question, the initial integration plans are analyzed for all cases. The question is stated as follows: *Which operational integration activities are planned regarding what is integrated, when and to what extent, and why is this the case?*

First, it is looked at what is integrated, when and to what extent. An overview of the combined results of all cases regarding the integration plans is provided in the framework shown in Figure 38. The results are formed by counting the observations of all separate cases. A distinction is made between the integration of the majority of the business activity, which is counted in the framework with normal numbers, and the integration of specific project or parts of the business activities, displayed separately in the framework as numbers in subscript. Using this framework, a number of observations can be made.

The data shows that in every case (part of the) management and (part of the) financial business activity is consolidated as soon as possible. Concerning management, it needs to transit from two leaders of two organizations, to one leader that is in control of the newly formed whole organization. As for the financial activity, financial reporting needs to be consolidated on at least a top level as soon as possible. The reason for this is that from a legal perspective there are no separate companies anymore, and as a consequence the financial results have to be reported for the company as a whole.

Another observation that can be made is that the sales and service activities are never consolidated. In four out of six studied cases, companies are more reluctant when it comes to integrating business activities that are exposed to direct contact with the customer or client, such as sales and service, and sometimes marketing and operations. These activities are not integrated to the full extent, or not even integrated at all. There seem to be multiple underlying reasons. First, many companies wish to not decrease the quality of processes related to clients. An integration process could disturb business as usual, thereby lowering the quality of work. Integration could also alter the way the client is treated, and though this change could be positive, the fact that procedures are changed at all can be perceived as negative by the client. The latter is especially the case when looking at regional influences. In the cases where Buyer and Target operate in different countries, it can be seen that activities are kept entirely intact to be able to serve the regional client best. If the company would choose to standardize or consolidate these processes, regional preferences could be overlooked and the client would not be served to its wishes. The same holds for situations where Buyer and Target have a different product portfolio, or non-overlapping customer bases.

When comparing the support and primary business activities, it can be seen that overall the support activities are integrated sooner, and in a higher degree. Of course this observation is biased by the lack of integration of sales and service, which has already been discussed, though it can be that operations are also too much region specific or quality dependent for quick and extensive integration.

When going more into detail regarding the support activities, it can be seen that the expectation described in section three is probably not the case. It was proposed that support activities between different companies do not differentiate much from each other, and as a result would be integrated to a great extent in many cases. However, this does not show distinctively in the results.

			Planned moment and degree of integration							
			Moment			Degree (Schweiger, 1999)				
			ASAP	Within planning horizon but not ASAP	Beyond planning horizon / No integration	Intervention	Coordination	Standardization	Consolidation	
Different activities, based on Porter (1985)	Support	Management	4 ₂	1	1	1			5 ₁	
		Finance	6	5	1	3		2	1 ₅	
		IT	1	5	1 ₁	1 ₂	2	1	4	
		HR	2	5	1	1	1	2 ₁	3	
		R&D (only 3 cases)	1	1	2	2	1		1	
		Procurement (only 5 cases)	1	3	1		1	2	2	
	Primary	Operations		3 ₂	3	3	2	1	2	
		Logistics (only 2 cases)		1	1	1			1	
		Marketing		3	3	4		2	2	
		Sales	1	2	4	4	1	1 ₁		
Service			2	4	4		2			

Figure 38 – Overall results regarding integration of support and primary activities

To further analyze the initial integration plans and the reasons for the decisions that have been made, the conceptual models are consulted. Figure 39 shows the combined results of the conceptual models of all six cases. The number represents the number of times an influence has been listed. A higher number is furthermore highlighted by a darker color blue.

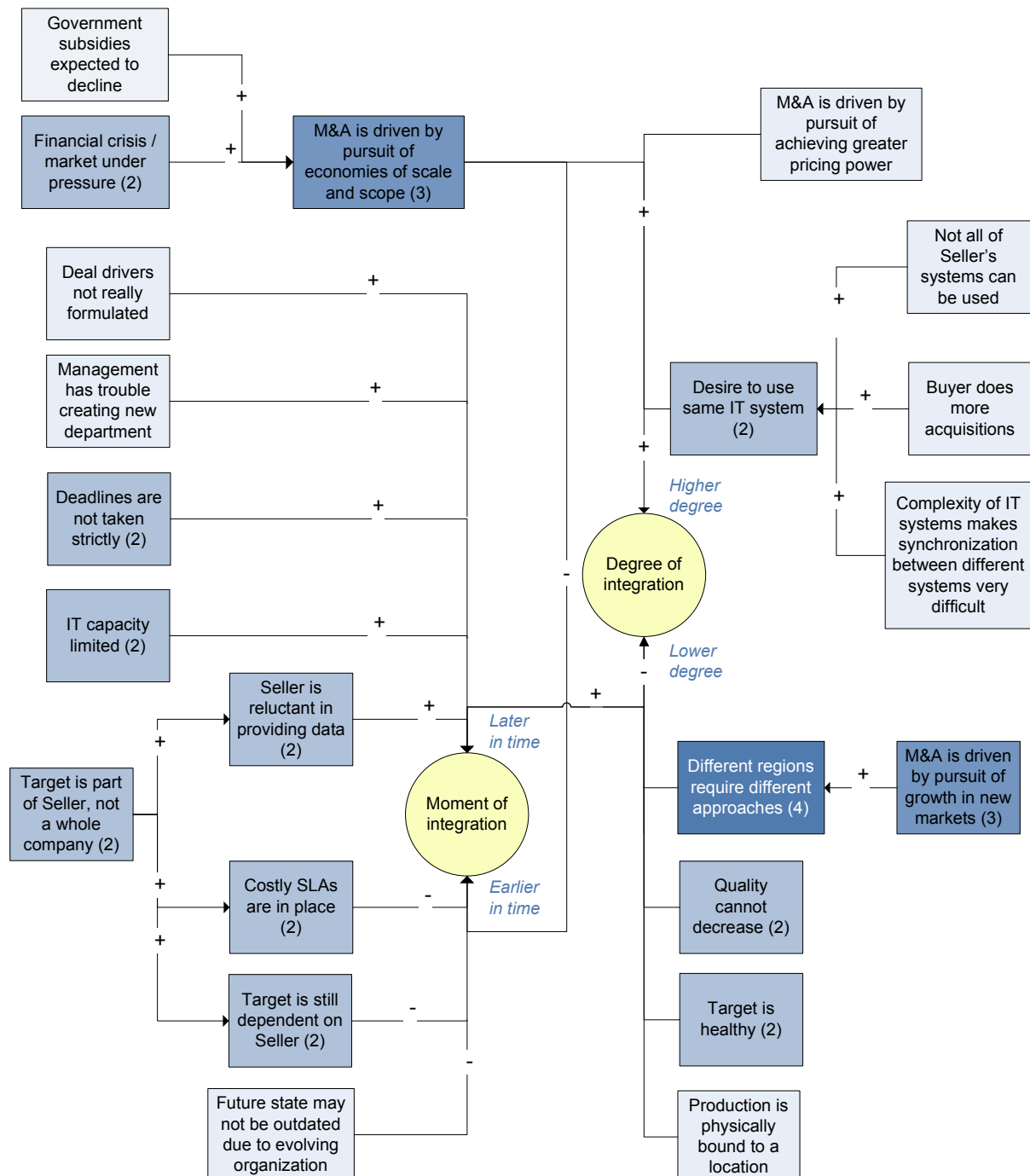


Figure 39 – Combined results regarding conceptual model of moment and degree of integration

The expectations formulated in section three include the difference in integration plans for different deal drivers. Figure 39 shows that this was a correct assumption. As can be seen, there are three main deal drivers that occur and that have an influence, i.e. realization of economies of scale and scope, growth in new markets and greater pricing power. Results are similar to what is expected. Economies of scale and scope push the moment of integration towards an earlier moment in time, and push the degree of integration towards a level of more integration. This way costs savings will be maximized quickly. As shown, the growth in new markets indirectly influences the degree of integration. Buyer enters a different market that is geographically dispersed, where other regulations and customs are used. Integration can have a backfiring effect in the case the procedures of Buyer do not work at the other region. The idea that different regions require different approaches makes Buyer careful with integration. The deal driver of achieving greater pricing power has – as expected – a positive effect on the degree of integration of the procurement business activity.

In section three it has furthermore been proposed that the health of Target could play a role in the determination of moment and degree of integration. In two cases it occurs that the good health of Target is a reason for Buyer to extend the moment of integration and to limit the integration degree. Buyer does not have much to gain with integrating, since Target is already running fine and as a result, the chance is small that improvements can be made.

The influence of hostile takeovers cannot be observed, since there are no cases where a hostile acquisition has taken place. However, there are two cases in which Target is a carved-out part of Seller, and Seller is a competitor of Buyer, resulting in an acquisition that is not friendly. Three effects can be observed. First, Seller is indeed not helping out and is reluctant in providing data (e.g. because of its own resource constraints), thereby causing the moment of integration being pushed further away in time. What is more interesting is that the same driver also causes the moment of integration to be forwarded in time, via two different ways. Because Target is still attached to Seller, e.g. by using Seller's IT systems and HR functions, Seller charges Buyer a certain amount of money for the continuation of these services. This is agreed upon in SLAs. Though it is convenient that the services can go on for a certain time, Buyer wants to end the SLAs as soon as possible. The reason for this is that they are costly. As a second reason for ending the agreement soon is the fact that Target – and thus also Buyer – is still heavily dependent on Seller. This is undesirable because of e.g. there is a risk of leaking valuable information to the competitor. The influence of the situation that Target is a part of Seller is great. On one hand, Buyer tries to accelerate the integration process to get rid of the SLAs and dependency. On the other hand, it is dependent on Seller when it comes to receiving data, a thing where Buyer has little control over.

Other observations that can be made from the conceptual model, are the delaying effect of limited IT capacity on integration in two cases, and the positive influence the desire to use similar IT systems at Buyer and Target has on the degree of integration.

In Figure 40 the overall results of the changes in the integration plan are displayed. Few conclusions can be drawn from this overview, apart from the fact that in two cases almost all integration activities are moved forward in time, and that in two other cases the support activities are moved further away in time. In Figure 41 the overview of the conceptual model regarding changes in the integration plan is shown.

Different activities, based on Porter (1985)		Changes in integration			
		Change in moment		Change in degree	
		Integration forwarded	Integration delayed	Less integration	More integration
	Support	Management			
		Finance	2	2	
		IT	2	2	
		HR	2	2	
		R&D (only 3 cases)	1		1
		Procurement (only 5 cases)		1	
	Primary	Operations	2	2	1
		Logistics (only 2 cases)	1		
		Marketing	3		1
		Sales	2		2
		Service	2		2

Figure 40 – Overall results regarding changes in integration plan

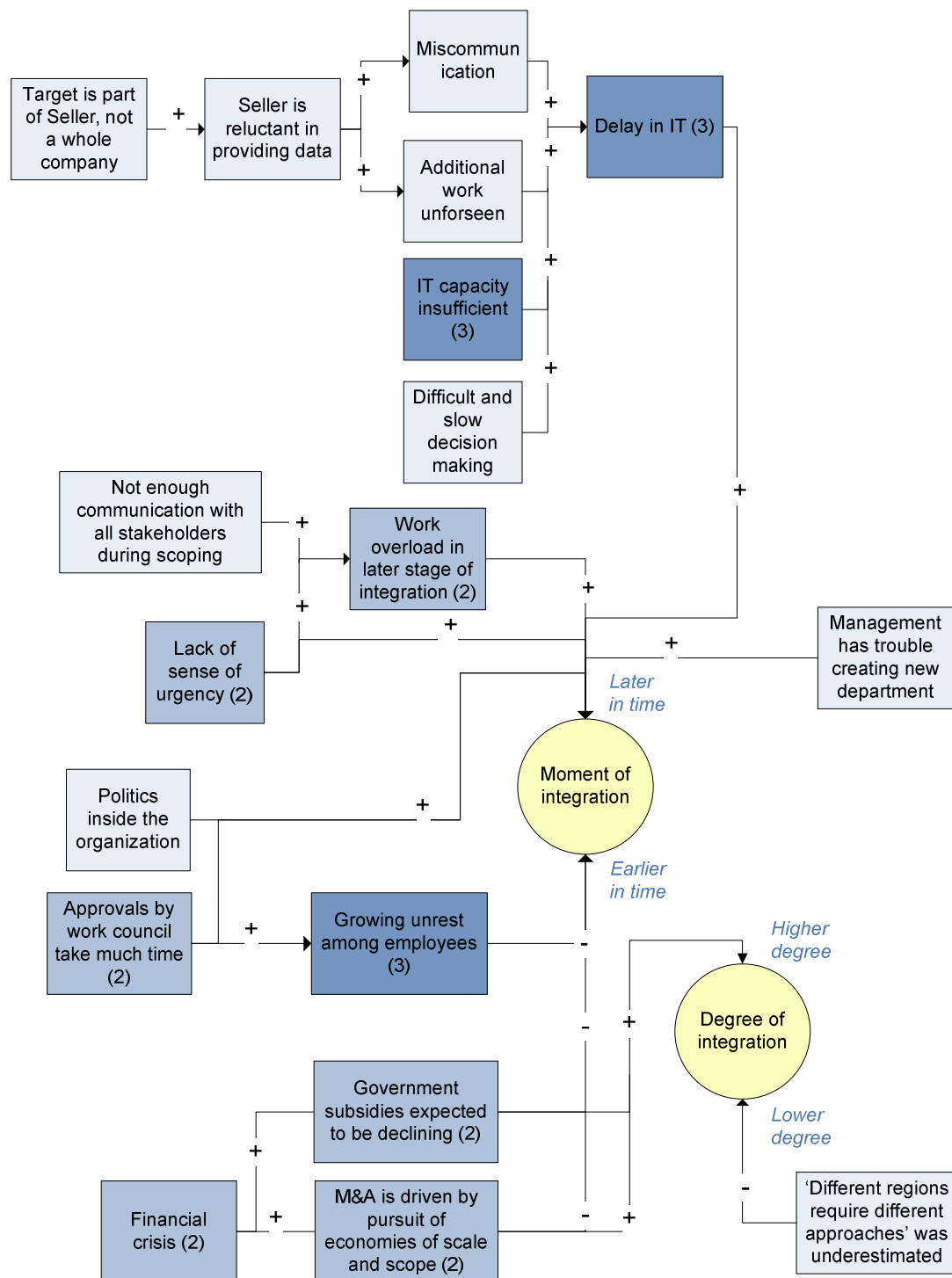


Figure 41 – Combined results regarding conceptual model of changes in integration plan

As can be seen, the influence of Target being a part of Seller can also cause changes in the integration plan. This means that in three out of three cases where this is the situation, the moment of integration is delayed.

Moreover, the observation can be made that in three cases the unrest among employees is reason for management to accelerate the integration process. Sometimes this unrest is enhanced by the actions of the work council.

It can furthermore be noticed that in two cases a work overload presents itself during the integration process. One time this is because of communication mistakes early in the project, the other time it is caused by a lack of sense of urgency. The latter also has a direct influence on the moment of integration in one of the cases. The fact that deadlines are not always lived up to leads to delay in the progress.

When combining Figure 39 with Figure 41, another interesting phenomenon comes to light. In the public housing sector, as well as the healthcare sector, there seem to be a tendency of not taking deadlines strictly. This causes the moment of integration to be more in the future. It is interesting to see that both sectors are of the semi public kind. The possibility that this characteristic will have a delaying impact on the moment of integration, as proposed in section three, is supported by this observation. What is even more remarkable to see, is that both Buyer in the public housing sector and Buyer in the healthcare sector join forces with their Target in a friendly merger. In both situations there is no haste with integrating, until one driver emerges. The financial crisis causes the semi public sector to be alert, since budget cuts by the government will likely hit the sector. Because of this, the merger becomes more focused on economies of scope and scale, with the known effects on moment and degree of integration.

6. Conclusion and discussion

This study has been conducted to fill in the gaps in literature concerning operational decision making in the post merger integration process. From six different cases the business activities have been examined and findings about the moment and degree of integration of these activities, as well as the reasons behind this, have been presented in a theoretical framework. Moreover, the changes in the integration plans and the influences responsible for these changes have been unveiled and analyzed. The research question that has been stated is

“In mergers and acquisitions, which operational integration activities are initially planned and why, how do these plans change and what is the cause of change?”

All related sub research questions have been answered in this study.

6.1 Answers to the research questions

First the operational integration projects that are planned are considered. When looking at which company parts are to be integrated, the overview is provided in Figure 38 in section five. As can be seen, all of the business activities are integrated in at least thirty three percent of the cases. Marketing, sales and service are the least integrated activities, which is due to the idea that since these activities have direct client contact, the quality must be kept high and regional differences have to remain in place. Furthermore it can be argued that the support activities in general are more often integrated than primary activities, though this does not show as clearly from the results. As for the question when company parts are integrated, this has been answered in the previous section with the statement that (parts of) management and finance are integrated as soon as possible. Moreover, it can be concluded that overall at the time of closing it has already been decided what to integrate and what not. As for the degree of integration, it can be seen that (parts of) management and finance are consolidated in all cases. IT is another activity with a high rate of consolidation (i.e. four out of six cases). The explicit desire to use the same IT systems everywhere drives this choice in two cases. The contrary can be seen in activities service and sales; they are never consolidated, mainly because of quality related reasons. Other business activities have no clear preference in the degree of integration.

When looking at the independent variables causing certain decisions made in the studied cases, the first that can be distinguished is the M&A deal driver. This indeed seems to have an influence, similar to what has been predicted in section three. Economies of scope as a deal motive implies a higher degree of integration, while pursuing this faster, whereas growth in new markets causes the opposite effect. Both deal drivers were present in three cases each, and caused roughly similar effects in all three cases. Achieving greater pricing power has a positive effect on the degree of integration. Another clear driver for integration decisions is the fact whether Target is a whole company or a part of Seller. The latter situation causes Buyer to pursue a moment of integration that is sooner in time because of costly SLAs and dependency on Seller, while being hindered in achieving this by Seller, who can be reluctant in providing the necessary data for the integration.

The second set of sub research questions concerned the changes in the integration plan. In the studied cases no real pattern has been found regarding what business activities are often affected by changes. Typical influences have been found however. Delays in IT – mainly due to insufficient IT capacity – have a delaying effect on the total integration in three of the cases. The insufficient capacity already showed problematic in the initial integration plans of two cases, where it moved the moment of integration further away in time. Another driver for delays in the PMI process is the work overload in later stages of the process and – or caused by – a lack of urgency. The two last important independent variables causing changes to the integration plan are the unrest among employees and external market conditions of the financial crisis. The first reason is present in three of the six cases and results in an earlier moment of integration. The unrest is caused or enhanced by slow work of the work council. The second reason, i.e. the impact of the financial crisis, mainly has had an effect on the semi-public sector which is dependent on government subsidies that are likely to be cut.

6.2 A tool to use in practice

The overviews of what has been integrated, when, to what extent and why can be used to learn what to expect from post merger integration processes, and moreover what potentially can delay the integration or what can change the initially planned steps in other ways. With this information, pitfalls can be better avoided in the future. For example, delaying factors such as miscommunication or insufficient IT capacity can be discovered earlier in the progress, such that the problems can be better dealt with.

This can be of use in the due diligences in the preparatory and transaction phases, as well as in the formulation of the integration plan. When conducting due diligences, it is looked whether certain synergies can be realized and what the value of these synergies would be to Buyer. If certain synergies require a high degree of integration, which cannot be achieved because of certain independent variables (e.g. the existence of regional differences), the value of these synergies might be estimated much lower. Moreover, when formulating the long term integration plan, actions can be taken in advance to avoid negative effects of these independent variables in a later stage of the PMI process.

A tool has been created to aid companies in this process. Figure 42 shows this tool. It consists of checks and corresponding actions that can be done to avoid potential pitfalls in a certain situation. The *possible drivers for situation* and *checks* have been derived from the conceptual models shown in Figure 39 and 41. The *possible actions* have not been deducted from this research, and have also not been validated or verified. They merely serve as example, which has as a result that the tool cannot be relied on without extended research on the subject. In total, the tool knows six limitations.

First, knowledge has to be acquired on other independent variables to complete the tool. Though the results are derived from six different case studies, the listed situations are believed to not even be the tip of the iceberg. One of the most important conclusions that have been drawn is that all cases are very different from each other and have their own particular characteristics. These characteristics can have far stretching consequences, and it is an impossible task to discover them all.

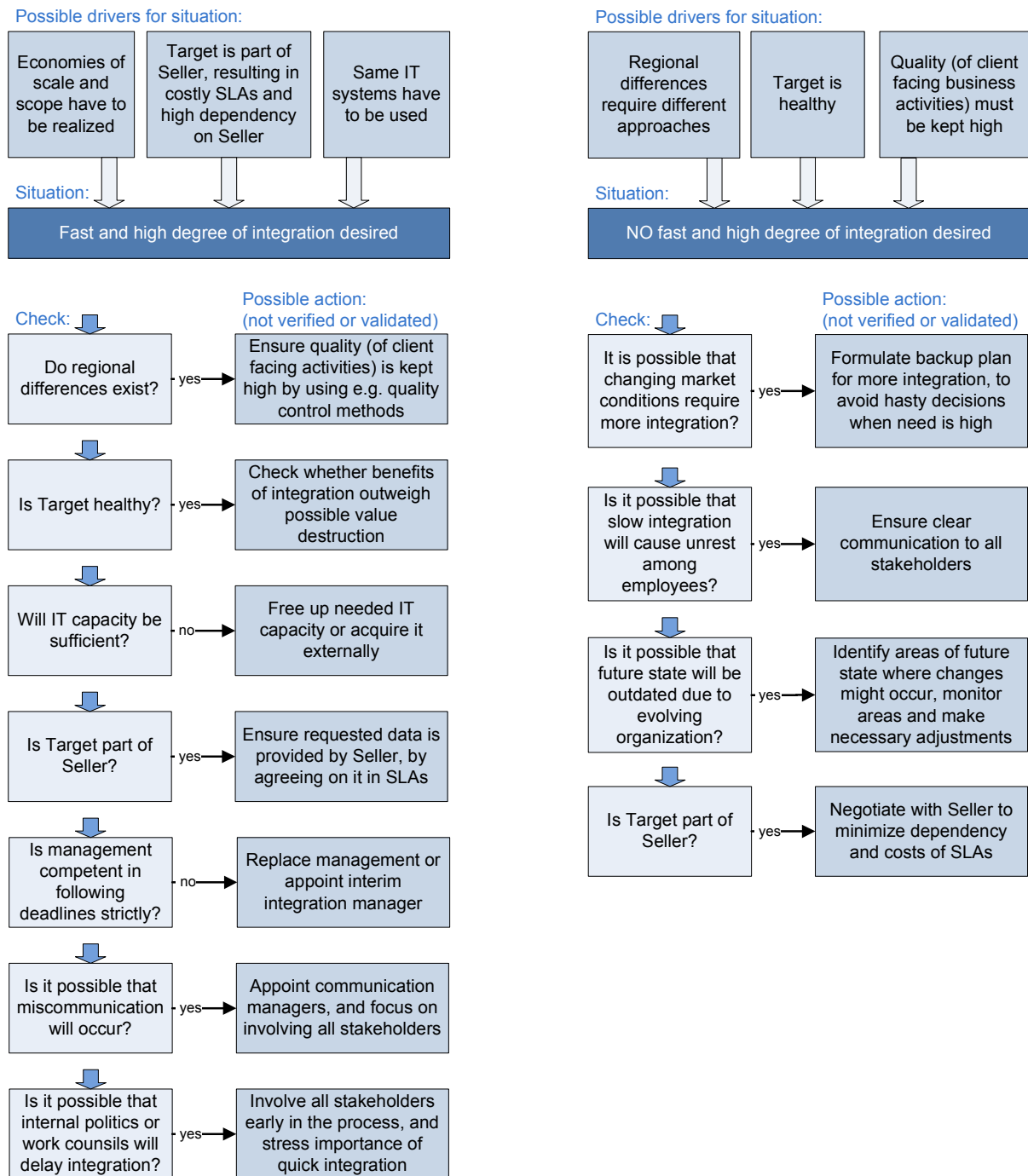


Figure 42 – Tool for integration phase preparation

A related limitation of this research concerning the amount of characteristics analyzed is that merger and acquisition cases must all be kept confidential for the bigger part. Due to this, important phenomena may not be fully disclosed and as a result the motives behind certain decisions cannot be described as desired. In this research, even one entire case had to be omitted because of information being too confidential. It is furthermore difficult to find good cases. Recent years, especially during the financial crisis, only few M&As have taken place in the Dutch market. This shortage of cases makes it difficult to e.g. study only acquisitions in a certain sector, or with specific

other characteristics. Related to this limitation is the relative small amount of interviewees. Since teams from PwC are small and since there was no client access (e.g. due to confidentiality reasons), the pool of available data sources is limited.

Another related limitation is the bias of the cases. Since all studied cases have been supported by PwC professionals, many things that could normally go wrong have been intercepted in advance. In mergers and acquisitions that do not have professional advisory during the PMI process, a larger amount of e.g. changes in the integration plan may be discovered.

Second, it is not proven that the proposed independent variables and causalities (i.e. *possible drivers for situation, checks*) exist. The exploratory approach of this research limits the usability of the results, since they are not based on quantitative data. Statistically, all the relationships or influences that have been found cannot be relied on. An opportunity for further research to overcome this limitation would be to test one or more of the proposed phenomena or causal relationships for statistical significance. However, it will be difficult to collect enough data from different deals, because of the shortage of cases.

Third, the size of the impact of these independent variables on integration is unknown. It has to be determined what the effect is on moment and degree of integration, and whether this effect is large enough, to avoid focusing on insignificant issues.

Fourth, the size of the impact of these independent variables on company performance is unknown, and thus requires future research. If variables indeed affect moment and degree of integration, this does not necessarily mean that company performance is also affected positively or negatively.

Fifth, the effectiveness of the proposed actions should be determined. The actions are listed as example and no verification or validation has been conducted.

Sixth, knowledge has to be acquired on other possible actions to solve the checked problems.

Despite its shortcomings, the tool – as well as the classifications and conceptual models presented in this research – contribute to knowledge on M&A by providing among other things a set of new, detailed insights in the decisions and changes in the long term integration plan, as well the driving variables behind it. However, it has also become clear that much research is still needed in this field of study, for which this research can provide a basis.

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Appendix I

Interview questionnaire

Introduction

Dear <name of interview participant>,

First of all I would like to thank you for your participation in this study.

The goal of the research project is first of all to gain insights in *which* parts of a buyer and target are integrated with each other in an M&A setting, *why* this is done, to *what extent* and *when*. Second, it is investigated *whether* initial integration plans change, *how* they change and *for what reasons*.

The research is a collection of explorative case studies, in which different M&As in different industry sectors are analyzed. By conducting interviews I want to learn the following of the selected cases:

What was the deal about?

1. What exactly has been purchased by the buyer and what was the situation?
2. What motives had the buyer for its purchase?

What were the initial integration plans at the time of closing?

3. Which parts of the buyer and target were planned to be integrated and which parts were not?
4. To what extent would the company parts be integrated?
5. When would the integration of the company parts be completed?
6. Why were these company parts (not) planned to be integrated in this way?
7. How did the planning phase go?

To what extent were the integration plans changed, and why?

8. Which integration plans have been adjusted over time?
9. What was exactly adjusted and what were the renewed integration plans?
10. What was the effect of these changes on when integration would be completed?
11. What were the reasons for these adjustments?

All gathered information will be treated as highly confidential. The identity of the companies in the case studies will not be revealed in the final report.

Interview questionnaire

What was your involvement in the PMI process?

- 0.1 What was your role in the process?
- 0.2 When have you been involved in the process?
- 0.3 In which phases of the process have you been involved?

What was the deal about?

- 1.1 Who is Buyer?
- 1.2 Who is Seller?
- 1.3 Who is Target and is it the same as Seller?
- 1.4 When was the deal signed?
- 1.5 When was the deal closed?
- 1.6 What business activities does Target consist of?
- 1.7 Which of the following business activities are present in Target's organization?
Management, Finance, IT, HR, R&D, Procurement
Operations, Logistics, Marketing, Sales, Service
- 1.8 In what sector do Buyer and Target operate?
- 1.9 What is the size of Buyer?
- 1.10 What is the size of Target?
- 1.11 What was the 'health' of Target?
- 1.12 Was the deal friendly or hostile, on a management board level?
- 1.13 What the deal a merger or acquisition according to you, and why?
- 1.14 Was the deal based on the equality of both companies; pre-deal and post-deal?

- 2.1 What were the strategic goals that were the reason for Buyer to acquire Target, or for the merger to take place?
- 2.2 What were the specific reasons for Buyer to pursue this specific deal / to buy this specific Target?
- 2.3 Were there any deal fundamentals formulated, and what was in it?
- 2.4 Was a future state formulated, and what was in it?
- 2.5 Was there enough time and effort put into formulation of the strategic goals, deal fundamentals and future state? How much time and effort?

What were the initial integration plans at the time of closing?

- 3.1 Which parts of the buyer and target were planned to be integrated?
- 3.2 Which of the following business activities were planned to be integrated?
Management, Finance, IT, HR, R&D, Procurement,
Operations, Logistics, Marketing, Sales, Service
- 3.3 Which parts were explicitly excluded from integration?

For every listed business activity or special project:

- 4.1 To what extent would the two companies be integrated?
- 4.2 What was the desired state after integration?
- 5.1 When was the integration of the business activity or project to be completed?
- 5.2 To what extent was this integration hurried compared to other integrations?

6.1 Why were these parts (not) planned to be integrated??

6.2 Were the strategic goals / reasons behind the deal an influence in this decision?

6.3 What were the reasons behind the decisions to integrate in the specific degrees and moments in time?

7.1 To what extent was the integration plan documented?

7.2 Which parties were involved in the formulation of the integration plan?

7.3 To what extent was Target involved in this?

7.4 How much time and resources were available for the formulation of the integration plan? Was this enough?

To what extent were the integration plans changed, and why?

8.1 Which integration plans have been adjusted over time?

9.1 What was exactly adjusted?

9.2 What were the renewed integration plans?

10.1 What was the effect of these changes on when integration would be completed?

11.1 What were the reasons for these adjustments?