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Post acquisition integration: A case study of "The Company's" post acquisition integration process following the acquisition of "Target Company"

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Foreword

This thesis marks the end of my education at the University of Stavanger and the beginning of my career. The five years at the university have been great and I have learned so much, especially the master thesis has been interesting since it provides the opportunity to go into details on a subject of choice.

I would like to thank "The Company" for giving me the opportunity to write this thesis and a special thank to my supervisor and key participants who, unfortunately, cannot be named. Their interest and effort in order to provide me with information and data to conduct the thesis is very much appreciated.

I would also like to thank my supervisor at the University of Stavanger, Roy Endré Dahl, for his advice and interest to help me throughout the process.

Lastly I would like to thank friends and family for their support and patience, as well as proofreading of the thesis.

Sjur Halseth

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1 Executive summary

A lot of focus regarding M&A is aimed towards its high failure rates and many studies concludes that this often is a result of poor post M&A integration of the acquired firm. This thesis attempts to shed light on this problem and identify reasons to why so many acquisitions fail to integrate the acquired firm, realize synergies and thus create additional value.

In the quest to provide some answer to this existing problem a case study of a post acquisition integration process performed by a company that possesses a great deal of experience in the field is conducted. The database, which is analyzed and used to evaluate the integration process, is derived from interviews and a survey of employees from the acquired company as well as a theoretical framework built on research relevant for the subject.

The thesis investigates how well this company performed the post acquisition integration based on theoretical guidelines and if desired synergies were achieved. The results reveal that they have been successful in some areas, while other areas of integration have been less successful. Especially the employee integration, which is considered the foundation for successful task integration was well performed. In this phase of integration actions to secure a positive atmosphere among the employees is key. The results also revealed that the acquiring company failed to provide training and assistance in order to handle some of the change initiatives as well as the measurement and progress monitoring of theses were absent. Moreover, the thesis suggests that the main reason for these mistakes might stem from lack of identification or misidentification of value leakage sources.

The analysis of the acquisition background and the following integration show that the mode of the acquisiton as well as how the merging companies relate internally and externally pre acquisition determine to a large extent the level and speed of integration required to succeed.

Lastly, the case study indicates that synergy realization does not necessary depend on well-performed integration, but it determine to what extent the synergies get utilized. In this case the synergy possibilities emerged from strategies prior to the integration, and the integration it self was a measure to utilize these possible benefits and avoid value leakage.

2 Abbreviations

A/S	Assets to sale
BCG	Boston Consulting Group
DCF	Discounted free cash flow
EHS	Environment, Health & Safety
EMS	Employee Management System
HR	Human Resources
IM	Information Management
LoI	Letter of intent
M&A	Merger and Acquisition
N/A	Not applicable
NYSE	New York Stock Exchange
P/E	Price per earnings
PAI	Post Acquisition Integration
PMI	Post Merger Integration
WACC	Weighted average cost of capital
WBS	Work Breakdown Structure

3 Introduction

Mergers and acquisitions (M&A) are seen as an important strategic measure for growth and development as an organization. In the ever-changing environment of the 21st century, M&A as a strategic approach, is considered a vital part of the internationalization and growth process, which several organizations are going through in their quest to stay or become competitive on a global scale. In order to gain access to new markets, technologies, increase market share etc. organizations try to acquire or merge with other companies that fit into their strategic plan and have a potential to return increased value for their shareholders. The magnitude of M&A is major and in 2012 alone over 30 000 deals were agreed and completed at a total price of 2,23 trillion US dollar worldwide (Bloomberg, 2013).

Even though M&A is among the most popular ways to expand far from all acquisitions turn out to be successful. Some of the studies done on this subject suggest that the failure rate of mergers and acquisitions is somewhere in the range of 70% to 90% (Christensen, Alton, Rising & Waldeck, 2011), while others states it is in the range of 66% to 75% (Deutsch & West, 2010). How "success" is measured varies and therefore different results are found. However, it is a strong consensus towards very high failure rates regardless of the variation in the results. The main reason for this substantially high failure rates is the performance of the post acquisition integration process. Generally, companies' focus of acquisitions is more towards the valuation of the acquired company as well as the strategic benefits that might follow the deal, while the post acquisition integration process is given a lower priority in many cases. The results of marginalizing the importance or scope of the required post acquisition actions are normally inferior performance for the acquired company.

But M&A is not the only way to grow a corporation. Strategic alliances are becoming an increasingly important part of corporate strategy. Estimates shows that approximately 35 percent of global corporate revenues in 2002 were a direct result of alliances compared to only 2 percent in 1980 (Cools & Roos, 2005).

	Transaction		Alliance			Purchase	
	Contract	Nonequity alliance	Equity alliance	Joint venture	Merger	Acquisition	
Risk & control	Asymetric	Shared			Total (by owner)		
Duration		Medium to long term			Permanent		
Entity formation (legal status)	No new legal entity formed			New legal entity formed	Legal status of old entities changed		
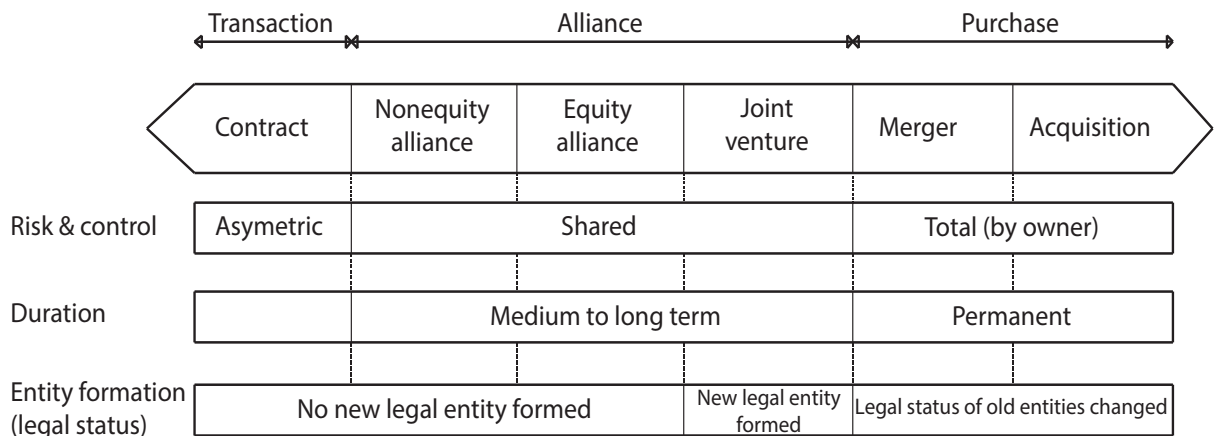
Figure 1: Alliances compared to transactional relationships and M&A (BCG)

Figure 1 illustrates the spectrum of corporate control, where alliances are placed in the middle of this spectrum. "They [alliances] are interfirm collaborations in which two or more companies jointly invest in an activity over a number of years, sharing the risk and potential returns but remaining independent economic agents (Cools & Roos, 2005)." Compared to M&A alliances are first and foremost leveraged as a choice for growth in times with high uncertainty and in markets with growth opportunities that a company do no want or can't pursue. Such markets may be emerging geographic markets where there are high political risks and a volatile economy or government regulated markets that are not open for foreign investment. A decent sat up alliance will decrease both individual risk and limit the resources a company need to commit compare to an acquisition or a merger (Cools & Roos, 2005).

Synergies	Reciprocal	Modular or sequential
Control	- High - Full ownership - Unambigous corporate governance	- Low - Flexible and quick implementation - One or multiple partners - Benefits from network effects -Cultural fit important

Resources	- High
	- Full ownership
	- Unambigous corporate
	  governance
		- "Soft" and therefore difficult to
		  value
		- Low redundancy
		- Low potential for cust cutting

Risk & uncertainty	- Low	- High - Requires a portfolio approach

Regulations	- No barriers to consolidation	- Desirable in situations where
		  M&A is impossible for legal or
		  regulatory reasons

Figure 2: How M&A and alliances differ on several dimensions (BCG)

Another source for growth to consider is organic growth, which basically means growing across and within the existing business. It is several ways of achieving organic growth for a company, but primarily there are three assets they can leverage: their capabilities, their customers and their scale (Andrew, Wolfgang, Mehra and William, 2005).

By leveraging capabilities, access to skills and technologies are shared between relevant businesses in order to improve, maintain or extend their current products and services. Secondly, a company can develop a cross-business approach to customer interaction. This approach should be implemented when it create real value for both the customer and the company. Leveraging customers across businesses is an approach that coordinates different businesses' positive attributes and expertise in order to offer customers a better product as well as leverage the already existing relationship to customers from one business across the others. Leveraging existing customer relationship across businesses will increase customer base and provide customers with

a better and more unified product supply (Andrew, Wolfgang, Mehra and William, 2005).

Lastly, a company can leverage scale across businesses by coordinating production and manufacturing facilities, recourses, vendors etc. In terms of expansion across borders a business can utilize the position of an already established business to reduce costs and risk by leveraging the built up infrastructure and sales efforts (Andrew, Wolfgang, Mehra and William, 2005). The downside of organic growth is first and foremost time related. Expanding within or building a new business require time, and in the fast moving business world of today, that time represent lost revenues in the short run. The product's "time to market" is one of several reasons companies often choose to buy instead of build and M&A is frequently used to mitigate the risk of loosing market share as a result of the time related to organic growth.

So, while knowing that mergers and acquisitions can be hard to pull off successfully, the M&A phenomena does not show any signs of slowing down. It is important to know why companies choose this option of growth and be familiar with their motivation for mergers and acquisitions – what are the critical drivers and key objectives associated with M&A?

3.1   Motivation

There are many reasons for companies to acquire or merge with other companies. Basically, it boils down to two essential reasons; improve the company's performance through increased revenue and/or to lower costs, or to reinvent your business model. One of the most common expressions related to M&A is synergy. The word synergy is derived from the Greek word synergos and means "working together". In the corporate world the word synergy expresses the idea of two or more units can generate greater value working together than the sum of them working apart (Goold and Campbell, 1998). Synergies can be achieved in multiple forms, and a few examples are:

Shared know-How is when units benefit from sharing knowledge or skills. They may improve their results by gathering and sharing insights to processes, functions, geographical area etc. The idea is to share best practice examples between a set of

people that have different ways of getting things done and benefit from combining the core competences into one work model.

To achieve **Shared Tangible Resources** often drive companies to acquire or merge with others. To gain economies of scale or scope by using a common research laboratory, storage, production and/or manufacturing facility is very tempting to companies in growth.

As a result of combining two units, the combined purchasing power will also increase. Reduced cost, improved quality and greater leverage over suppliers are possible consequences of **Pooled Negotiating Power.**

By acquiring a supplier large benefits can be leveraged through well-managed **Vertical Integration**. Controlling the flow of products from one unit to another may result in reduced inventory costs, speed up product development, increase capability utilization and improve market access (Goold and Campbell, 1998).

Besides synergies, companies often aim to reduce risk through M&A and diversification is an effective way of doing so. The overall risk exposure a company is facing can be reduced through acquisitions of companies in other business segments or countries. Imagine an American oil company operating only in the oil and gas business. Fluctuations of the dollar value and/or the oil price will have a major impact on that company. If the same company had a portfolio of multiple companies in multiple business segment and dealing with a number of currencies the risk would have been widespread and the effects of a decreasing dollar value and oil price would not be as significant. This is of course an oversimplifying illustration. However, diversifying the business portfolio urge companies to acquire and merge and is considered an important motivation for entities that are or want to become a part of a global business environment.

Gaining foothold in other countries and access to new markets can reveals exiting opportunities for many organizations. Organizational change is vital in order to stay competitive in a fast moving business world and globalization can be a decent

foundation for reinventing a business model. Access to various types of demand that fit the company strategy and an increased market size is tempting for companies pursuing both horizontal and vertical growth. Horizontal diversification represents growth in numbers of business segments a company is operating in or an increase in numbers of products it supplies. Horizontal diversification is a measure to spread risk over several business segments as well as increase the size of the market the company operating in. Vertical diversification on the other hand, is reached with an acquisition or merger with an entity in the current supply chain giving the company increased supply chain control and facilitates for vertical synergies.

Diversification is considered one way of reducing risk and increasing the *size* of the market facing a company. Another way of reducing risk and also increase the market *share* is by acquire or merge with a direct competitor. Eliminate competition automatically increase market share (at least for a while) as well as you get your hands on their technology, resources, facilities etc. The downside with this kind of M&A deal is the price, which often is too high when buying a direct competitor.

In summary M&A is faster and can be considered as a shortcut to growth compared to alternative growth options. Generally, the aim is to buy already established technologies, resources, facilities, knowledge and customers in order to create synergies, achieve economies of scale and scope as well as lower risk, which eventually will increase the value for its shareholders.

3.2 Problem formulation

M&A has been a very important part of the corporate world for a very long time and well-educated and experienced people have done numbers of research on the subject. Still, organizations are struggling to do this successfully and one of the reasons why is poor post acquisition integration strategy and/or performance.

Luckily, I have been given the opportunity to write this thesis in cooperation with "The Company"[*] acknowledged for their acquisition abilities, which is one of many reasons

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[*] The acquirer in this thesis is referred to as "The Company"

for their well-established position in many business segments worldwide. Their wide experience in this field leads to the chosen problem formulation:

How did "The Company" perform the post acquisition integration after the acquisition of "Target Company"?*

To be able to somehow answer the problem formulation three research questions have been established.

3.2.1 Research question

It is of interest to understand the "The Company's" motivation behind the acquisition and what measures where used in the integration process to obtain these synergies. To consider an acquisition successful the planed synergies has to be achieved, and in order to do so a proper integration plan has to be constructed and carefully carried out. This leads to the first sub-question or research question of this thesis:

- *What type of synergies were planned to be obtained with the acquisition and how were they planned to be achieved?*

How is M&A integration theory applied in "The Company's" integration process? In the analyzing part of this thesis I will try to determine to what extent the measures used by the integration team corresponds to the theoretical framework of this thesis.

- *To what extent the integration process proceeded according to the theoretical framework (similarities and differences)?*

Finally, this thesis will discuss the positive and negative parts of the execution of the integration process and hopefully provide suggestions for improvements that can be useful for similar acquisitions in the future. Determine both where the integration process where successful and where it was unsuccessful is vital for increasing the success rate and improve the integration process for future deals.

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* The acquired firm in this thesis is referred to as "Target Company"

- *What have been the successful parts of integration and what should have been done differently?*

3.2.2 The constraints of the thesis

This thesis focuses specifically on *post* acquisition integration and therefore only briefly touches on other parts of M&A such as the financial and legal aspects from the *pre* acquisition phase even though these parts are considered important in the process as a whole.

Further, this thesis concentrates more on "task integration", such as process and system integration and less on the "human integration" such as culture and employee integration. The fundamental parts of culture and employee integration are included since they are considered important in order to achieve success with the task integration, but the thesis doesn't analyze these parts in-dept.

These constraints has been set as a result of the "The Company's" interests to investigate these parts thorough. By setting these specific constraints, more time will be allocated to follow up the findings with reasonable recommendations in order to improve this part of the integration in potential future deals.

The data this thesis is based upon is gathered from employees originally employed by "Target Company". For a more complete analysis, interviews with employees employed by "The Company" pre acquisition who where involved in the integration would have been desired. However, that was not possible due to geographical constraints.

4   The pre acquisition process

To be able to accomplish a successful acquisition careful planning and assessment on multiple levels is required in the search of finding the best candidate, reasonable price, determine the legal aspect and develop a detailed plan for proper and complete post acquisition integration (PAI). The first step in the acquisition process is to decide an objective with the acquisition.

4.1   Decide on acquisition goals

Where do we want the acquisition to take us? What are the strategies for the future of the company? These questions are important to answer before considering any merger or acquisition. When the strategy is set and agreed upon a profile of a target company can be outlined based on the agreed direction and scale of future growth. The list of features should include (Nikolova, Gogova, Matlievska & Sajnoski, 2011):

- Type of activity
- Size of company
- Its market position
- Number and structure of employees
- Production range
- Structure of assets and equity
- Profitability
- Indebtedness and liquidity
- And many similar indicators

4.2   Search for acquisition candidates and evaluate prospects

The next step in the process is to find companies that fit the characteristics of the target company. There are two ways to approach this; compose an internal team of employees to gather relevant information and make proposals or you can hire external experts in terms of consultants. The latter choice is probably more expensive but on the other hand they have experience with M&A and are likely to have more information about the market conditions. Factors that increase the likelihood of success of the acquisition

might include that the target company are (Nikolova, Gogova, Matlievska & Sajnoski, 2011):

- Undervalued or has a higher fair market value
- Not using its resources and capabilities optimally
- Having complementary products/services with the potential buyer
- Being poorly managed

These criteria will either reduce the price of the company or increase the likelihood of obtaining potential profit increasing synergies. It is important to know what you are buying and therefore a thoroughly assessment of the target company should be carried out. It is crucial not to isolate the company in the assessment, but include important aspects surrounding it such as its suppliers, distributors and costumers and their perception and opinions of the target company in order to get as much information as possible (Nikolova et al., 2011).

Both quantitative and qualitative data should be considered and assessed in pursuance of painting the most complete and accurate picture of the potential purchase. Several questions regarding the candidate's financial, legal, risk and operational condition and potential must be answered. These questions should deal with situations like (Nikolova et al, 2011):

- Financial information, if unaudited, it is desirable for the buyer to provide its own independent audit
- Trends in sales and profit margins
- Future forecasts for sales and market in general
- Capital structure
- Fluctuations in the value of shares and payments of dividends
- Level of indebtedness of the company
- Information on marketing mix
- Information for employees: number, structure, knowledge, skills, abilities, training plans and training and so on
- Information for suppliers, creditors, customers
- Legal aspects and contracts and so on.

4.3   Valuation

The valuation of the target company is also based on a mix of qualitative and quantitative analysis that will culminate in an estimated value of the company and a potential bid. There are numbers of methods used to reach the most accurate valuation and generally they are systemized in the 3 main groups: *market-oriented methods*, *cash flow based methods and assets based methods* (Nikolova et al., 2011).

The market-oriented method is a comparison approach where crucial characteristics of the target company are compared to the same characteristics of similar companies established in the same business segment or market. Typical characteristics used in this approach are operating profit, net profit, earnings per share, total revenues and income from operations and book value of assets (Nikolova et al., 2011).

After estimating a price, the Price/Earning ratio (P/E) is calculated and compared to the P/E ratios of similar companies. In terms of determining the final bid price, a price multiplied with the P/E ratio is often used, hence the importance of getting the P/E ratio as accurate as possible to reach a realistic price close to market value. Another ratio used in this method and compared to the market is the assets to sales ratio (A/S). So far the valuation is based on quantitative analysis of historical data and therefore provide a certainty in the valuation. However, this part is only considering the past and pays little or no attention to the outlook for the future (Nikolova et al., 2011).

The cash flow based method is more future oriented and estimates the present value of future cash flows. There are two frequently used methods to calculate the present value, either net present value (NPV) or discounted cash flow (DCF). NPV is obtained by summing the discounted net cash flows:

$$NPV = \Sigma \frac{Ct}{(1+r)t}$$

- Ct = net cash flow in period t
- r = discount rate
- t = time of projection

To estimate discounted free cash flow the net income of the year has to be corrected by the amount of interest, depreciation and gross investment in operating assets and then discounted with the weighted average cost of capital (WACC):

$$DCF = \frac{Net\ income + Interest\ (1 - \%\ Income\ tax) + Depreciation - Gross\ investment}{1 + WACC}$$

Analyzed for several years the final DCF is the sum of each yearly DCF separately:

$$DCF = \Sigma \frac{DCFt}{(1 + WACC)t}$$

- DCFt = discounted free cash flow in year t
- WACC = average cost of capital
- t = time of projection

These calculations provide important estimates of the future earnings, however, relatively high uncertainty is involved since the calculation is based on the future and the uncertainty rises along with the numbers of years included in the calculation. Still, assisted with modern information technologies, based on numerous analyses, quite accurate estimation of future cash flows can be carried out with relatively high accuracy in the results (Nikolova et al., 2011).

The third method, the method based on assets, is often used in cases where the target company operates with loss and therefore the two prior methods may be insufficient. One way of assessing a company's value based on its assets is the adjusted book value of assets. To perform this type of valuation the book value of the assets in the balance sheet, including the accumulated depreciation, is assessed and valued. The disadvantage regarding this assessment is that it only considers the tangible assets and does not take the intangible assets such as human resources, knowledge, skills, brand etc. into account (Nikolova et al., 2011). Further, if a company is working with losses over a longer period of time an assessment of its liquidation value is commonly carried out. The aim with this approach is to determine the difference between the company's value of assets and its

liabilities. The result of this approach will recommend whether to purchase the company or establish a new one (Nikolova et al., 2011).

Cost of replacement is a method that values the tangible and estimated the intangible assets with the object of assessing how much it will cost to create new company like the already existing one. This approach requires lots of experience and great knowledge in order to obtain an accurate estimate of the intangible assets. If it weren't for the possible future synergies it wouldn't make any sense purchasing a company consistently operating unsuccessful, hence the importance to include an estimate of the synergies available after the acquisition. The following (simplified) equation provides an estimate of the synergy needed in order to achieve a desirable post acquisition value of the company (Nikolova et al., 2011).

$$\frac{Value\ of\ the\ target\ firm\ before\ acquisition + Synergies}{Number\ of\ share\ after\ acquisition} \geq Stock\ price\ before\ acquisition$$

The possible synergies play a big part in the valuation of a company and are a direct factor for the result of the acquisition as well as it underlines the importance of a complete and successful post acquisition integration in order to achieve those synergies.

4.4 Non-binding proposal, letter of intent and negotiation

Once the target company is evaluated a non-binding proposal is submitted including the terms the company are willing to offer. The proposal contains no obligation, hence the name, and the purpose is to initiate negotiations. If the target company shows interest a letter of intent (LoI) will follow. The LoI is legal paper and may contain commitments. The LoI outlines the potential deal in more detail compared to the non-binding proposal and initiates the negotiation phase where price and structure of the deal and other issues are discussed.

4.5 Due diligence

The due diligence phase follows immediately after the LoI is signed. The due diligence part can be compared to an investigation of the target company to ensure that the company's corporate governance is line with the acceptable standards. At this point the

potential seller should have gathered all important and relevant information regarding the company creating a foundation for the buyer to decide weather to buy or call of the deal.

Divestment	Acquisition
Develop checklist	Develop checklist
Conduct Co. Intranet search	Conduct Intranet search
Conduct Site Visits & Collect documents	
Develop Vendor Due Dilligence Report	Receive & Review Vendor Due Diligence Report
Establish & Populate Data Room Files	Access & Review Data Room Files
Undertake Reverse Due Diligence of Biddeers	Due Diligence Valuation of Bid
	Conduct Site Visits
Bid Evaluation & Acceptance	Develop Bid for Acceptance

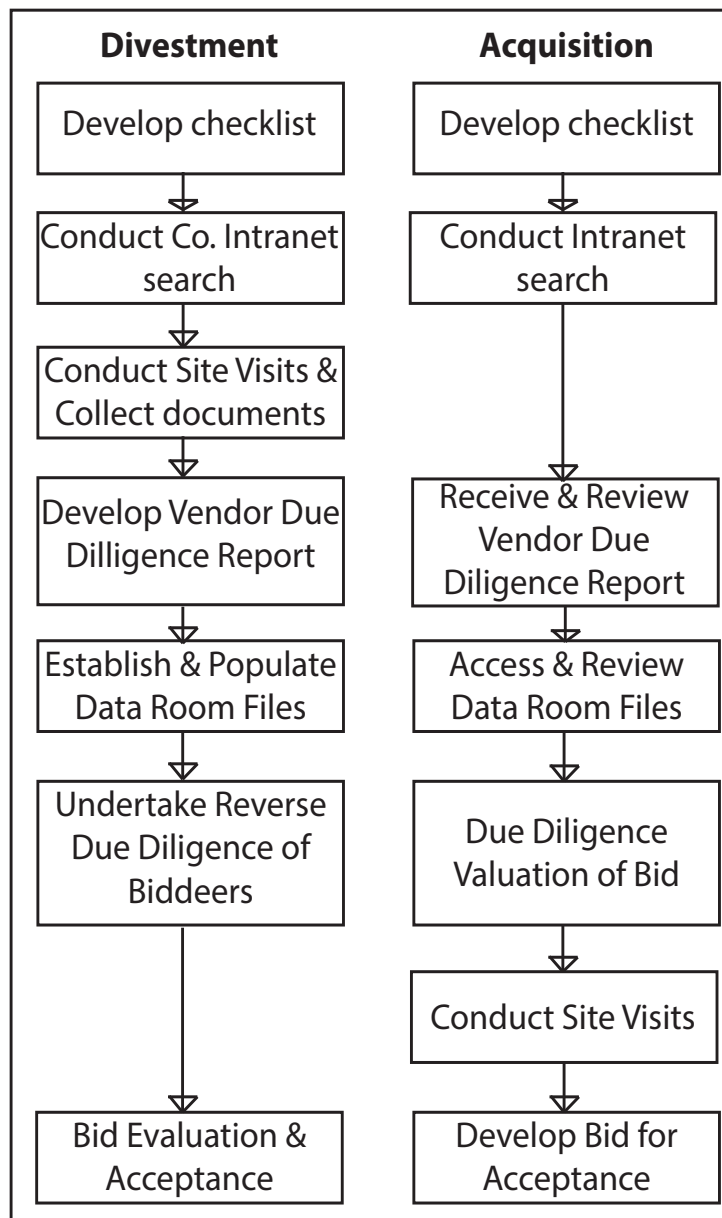Figure 3: Due diligence process (Center for Chemical Process Safety, 2010)

The due diligence phase starts with developing a checklist of issues that will need to be investigated as the due diligence process moves forward (Center for Chemical Process Safety, 2010). Due diligence is performed by both parties and is a parallel cooperation (see figure 3) between the two in order to capture all relevant and important aspects of

the target company's financial and operational status as well as the relationship to and status of its vendors, suppliers and customers.

The objective of any due diligence exercise is to identify issues, evaluate them and then quantify them in some manner, usually in form of liabilities, and the potential monetary impact those liabilities could have on the value of a particular transaction (Center for Chemical Process Safety, 2010).

4.6 "Purchase and sale agreement" and Closing

The purchase and sale agreement is the legal document (contract) in all M&A transactions defining the details of the merger or acquisition. The contract includes all details of the structure of the deal as well as warranties, break-up-fees and the closing condition.

If all the prior steps in the M&A process are done properly, and both parties agrees on the terms in the purchase and sale agreement, then all the documentation can be signed, transfer funds and close the transaction. The closing part is the last step of the pre acquisition part.

5 The post acquisition integration process

The *pre* acquisition process is considered finished when all purchase and sales documents are signed and the deal is closed. This is when the *post* acquisition integration phase, the core of this thesis, officially starts.

5.1 Identifying integration approach

The integration process is described as a two-dimensional process; on the one hand you got "task integration", which is the operational part and realization of synergies. On the other hand you got "human integration", which consists of the cultural aspect and creating positive attitudes towards the integration among the employees (Birkinshaw, Bresman & Håkanson, 2000).
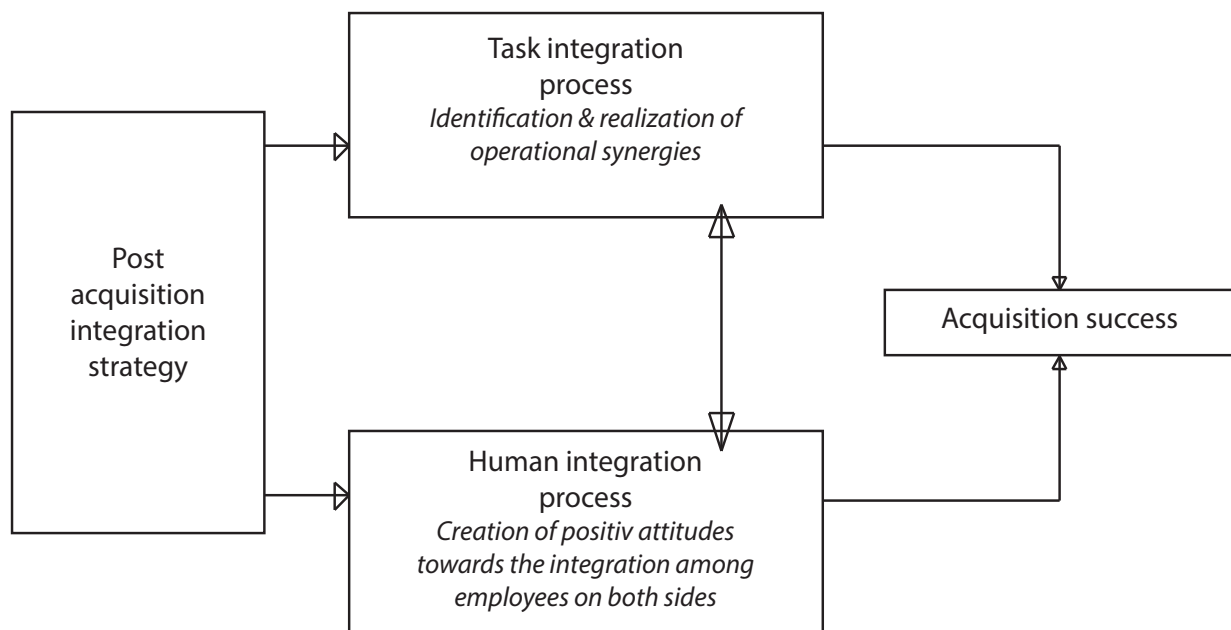
```
┌──────────────┐         ┌─────────────────────────┐
│              │         │   Task integration      │
│     Post     │────────▷│       process           │──────┐
│  acquisition │         │ Identification & realization of │
│ integration  │         │   operational synergies │      │
│   strategy   │         └─────────────────────────┘      │
│              │                      △                ┌───────────────────┐
│              │                      ║                │ Acquisition success│
│              │         ┌─────────────────────────┐   └───────────────────┘
│              │         │  Human integration      │      │
│              │────────▷│       process           │──────┘
│              │         │ Creation of positiv attitudes │
│              │         │ towards the integration among │
│              │         │  employees on both sides │
└──────────────┘         └─────────────────────────┘
```

Figure 4: Framework for integration management (Birkinshaw et al., 2000)

The task part and human part of the integration process are considered separate activities as they require totally different management skills and are executed with different pace. However, they are not independent of each other in the way that both have to be successful to make the acquisition successful as a whole. Enhanced employee satisfaction are likely to make capability transfer and resource sharing easier and task

integration, in turn, is likely to further the cause of employee satisfaction and a shared identity (Birkinshaw et al., 2000).

	Low	High
High	Mixed success: satisfied employees but no operational synergies achieved	Successful acquisition
Low	Failed acquisition	Mixed success: operational synergies achieved at expense of employees

Level of completion of human integration (vertical axis)

Level of completion of task integration (horizontal axis)

Figure 5: Impact of task and human integration processes on acquisition outcome (Birkinshaw et al., 2000)

Being aware of these prerequisites for achieving successful integration is vital in order to plan and implement the integration plan. Further, it is important to identify what kind of approach the integration requires, which depends on the conditions of the acquisition. The approach of the acquisition is developed along two dimensions: the degree of desired strategic interdependencies between acquired and acquirer, and the need for the acquired firms continuing organizational autonomy (Haspeslagh & Jemison, 1991).
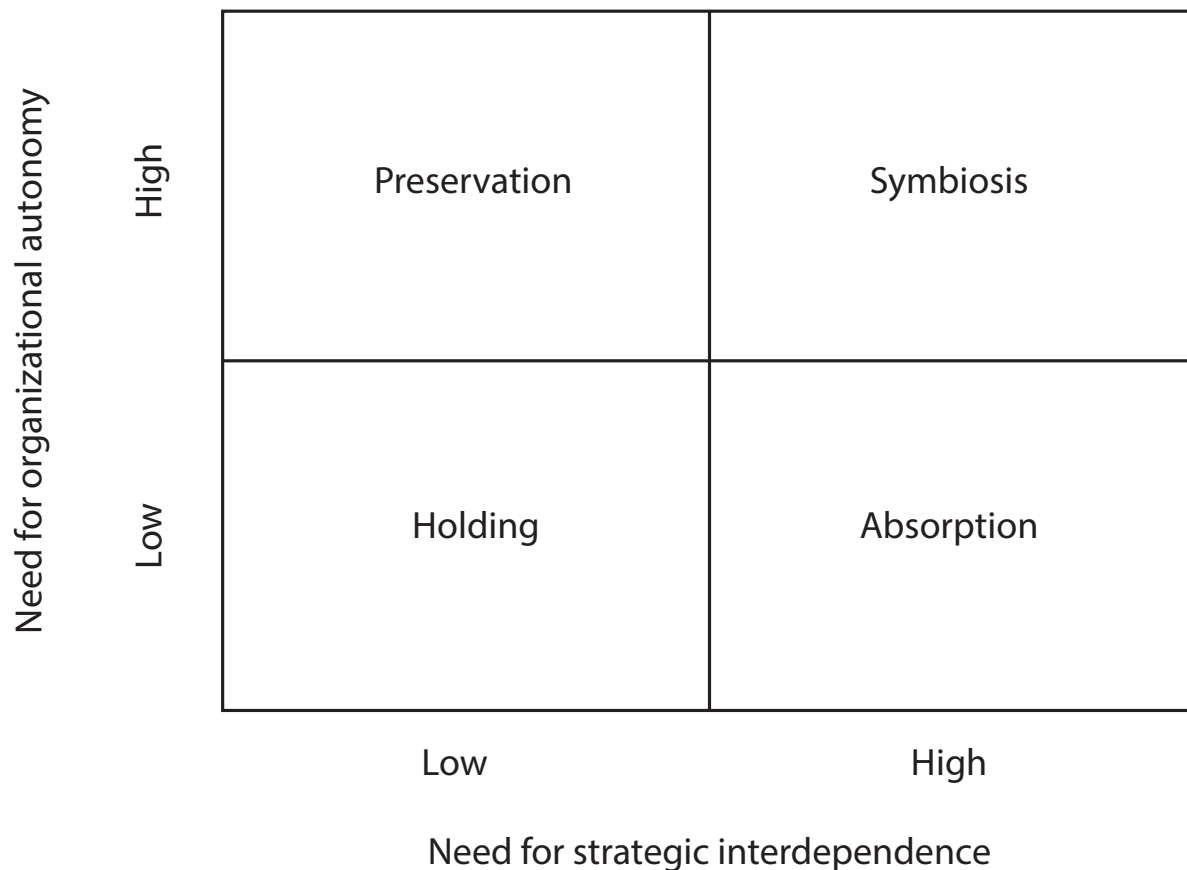
Figure 6: Mode of integration (Haspeslagh & Jemison, 1991)

The outcome of the two dimensions is four categories: *Symbiosis, Preservation, Absorption and holding*, all requiring a different integration approach and is fundamental in determining the best possible way to integrate the acquired company. In terms of symbiotic acquisitions (high need for organizational autonomy and high need for strategic interdependence) the objective is to keep the organizational autonomy and achieving strategic interdependencies simultaneously. This means that synergies between the two need to be achieved while keeping independency between the two companies organizationally. Often, if it is performed successfully, this approach will maintain and motivate a higher level of employees, as it is not perceived as a "takeover" since the acquired company is keeping their organizational autonomy instead of being forced to change. However, it is a difficult approach to implement. To be able to implement this approach Haspeslagh and Jamison are recommending starting with preserving the autonomy and then slowly increase an interaction referred to as "reaching out" rather than "reaching in", which in the end will merge the organizations (Haspeslagh & Jemison, 1991).

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Regarding preservation acquisitions (high need for organizational autonomy and low need for strategic interdependence), both companies are kept relatively divided and changes are made carefully to develop some new features without eliminating the already existing strengths of the companies separately Haspeslagh & Jemison, 1991). This is often the preferred acquisition approach for horizontal acquisitions and where little synergies can be achieved.

Absorption acquisitions (low need for organizational autonomy and high need for strategic interdependence) are the most common type of acquisitions. In this case the acquirer completely absorbs the acquired company and the objective is to obtain synergy by fully integrate the target company's organization and capabilities. In terms of absorption acquisitions the acquirer must carefully perform the human task integration in order to retain personnel, maintain their motivation and make them feel a part of the new company.

The last approach is called holding acquisitions (low need for organizational autonomy and low need for strategic interdependence). This refers to holding companies and in most cases don't not need any integration at all.

5.2   The integration plan

The integration plan is a detailed plan based on the characters of the acquisition (discussed in section 5.1) describing how the company will achieve its desired synergies. To be able to achieve those synergies the target company has to be properly integrated and the integration plan displays step by step how this is done.

According to William H, Venema (2012) an integration plan should cover at least three main principal areas. The first principal area is related to the first days or period after the closing of the deal to transition the target company to the new owner legally and operationally. This section of the plan addresses the required administrative actions and corresponding deadlines to ensure that payroll and benefits of the target company is not interrupted while integrating these processes into the new HR system. A team is

composed to ensure that this is performed flawlessly and they are also responsible for accomplishing these tasks within the determined deadline (Venema, 2012).

The second principle area is describing how the company is going to communicate the transition of the target company to its customers, vendors and employees (Venema, 2012). It is vital to inform customers and vendors about the integration process and the effects and consequences it may have for them. Communicating the benefits the transition will bring them as a result of the deal as well as maintain or improve the existing relationship is considered crucial in order to achieve success through the acquisition. Further, communicating well with the employees of the target company to retain key personnel and reduce the fear experienced by the employees in general is another crucial part of this principle area. This particular part of the communication is short-term communication and is preferably executed immediately after the acquisition is announced. The other section of the communication plan is ongoing communication that will address the concerns of key stakeholders as the integration process unfolds (Venema, 2012). Receiving feedback from key stakeholder and acting upon them require the integration plan as a whole to be somewhat agile, which can be very challenging in some cases.

Finally, the third principle area should describe and explain how the benefits or synergies of the acquisition is going to be realized and, specifically, describe each step that must be accomplished in order to achieve those objectives. The plan should include a timetable for accomplishing the steps and should assign responsibility for accomplishing each of them (Venema, 2012).

These three principle areas only outline a general guidance for developing an integration plan, of course, and as most acquisitions has its own characteristics, challenges and conditions every integration plan will contain a different approach and content. However, ignoring one or more of the principle areas will in most cases result in failure of integrating the target company properly.

McKinsey provide a guideline or tool as help for companies to customize their integration plan according to the specific challenges of integrating the target company.

The framework is based on "the 7 S" (See figure 7) and helps the acquiring companies to compare themselves with the target on seven important areas. In order to successfully integrate the target company any deviations in the "7 S framework" needs to be discovered and measures for how they will be aligned determined. This analysis provides useful guidelines for highlighting the most important sources to change the critical areas at the target company in order to aligning the companies on these 7 areas.
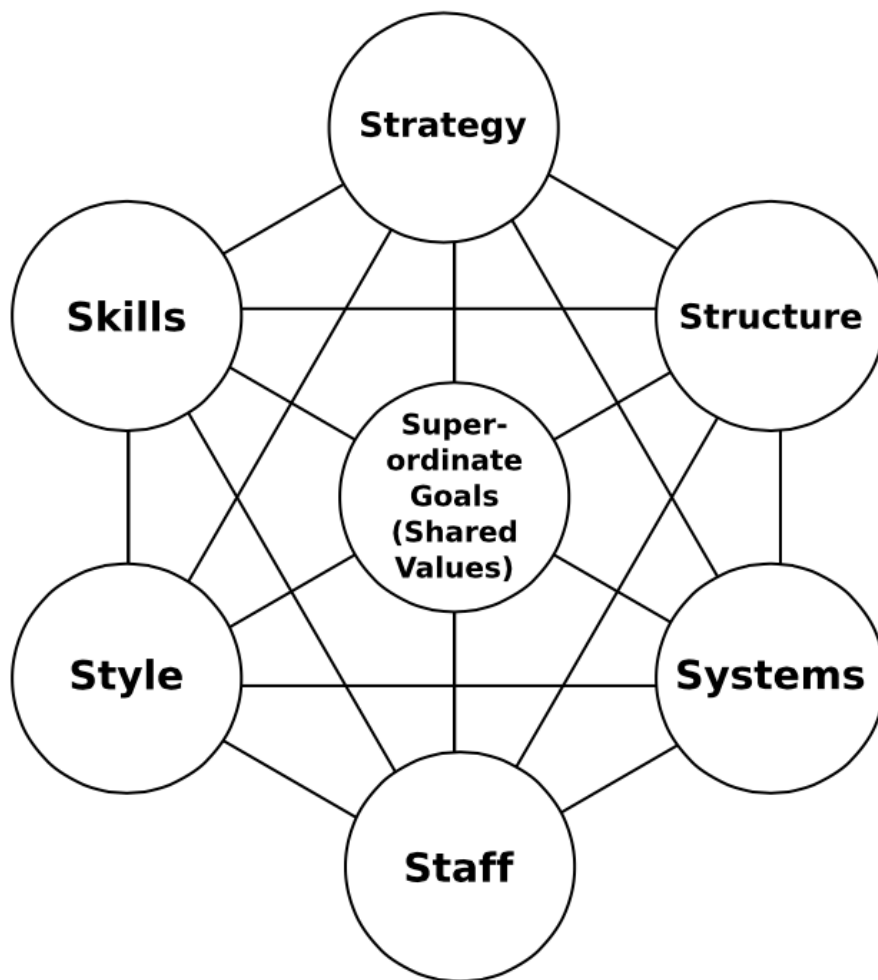

Figure 7: The seven S's (McKinsey)

5.3   Speed of integration

Speed of the integration process is one of few under researched subjects within M&A. Homburg and Bucerius (2006) has composed a research on how speed of integration is considered a success factor of M&A and how the role of internal and external relatedness affect the speed. The authors define speed of integration as the shortness of the time needed to complete the intended integration of systems, structure, activities, and processes of the two companies.

The optimal speed of the integration process depends on the scope and conditions of the acquisition and the degree of integration required to obtain the desired synergies. Regarding post acquisitions integration and its related timeframe much attention is paid to "the first 100 days" and the importance of executing vital actions in order to align the most critical features of the target company with the ones of it own. However, studies of this phenomenon cannot unanimously prove that there is support for this hypothesis. "Our evidence, in terms of the importance of speed of action in the first 100 days, does not provide strong support for the first 100 days, suggesting that this frame is perhaps more one of convenience than substance (Angwin, 2004)." Still, the research indicates that association between the amounts of changes made during the first 100 days and perceptions of acquisition success after three and four years post acquisition exists.

Another determining factor for the speed of integration and the associated success depends on the level of relatedness. Homburg and Bucerius (2006) argue that there are beneficial and detrimental effects associated with speed of integration and that the total effect of speed on M&A success depends on the level of relatedness of the merging firms.

Benefits of speed in integration depend on whether internal or external relatedness exists or not. External relatedness means the existing relations between the two firms concerning target markets and the firms' market positioning in terms of product quality and price. Internal relatedness on the other hand means how the two firms relate internally with focus on management styles, culture, premerger performance and strategic orientation (Homburg & Bucerius, 2006).

The matrix below (Figure 8) illustrates how beneficial or detrimental effects of speed depend on the level of external and internal relatedness.

		Low	High
External Relatedness	**High**	Cell 1: - Beneficial effects of speed: **weak** - Detrimental effects of speed: **strong** - Overall effects of speed on M&A success: **strongly negative**	Cell 2: - Beneficial effects of speed: **weak** - Detrimental effects of speed: **weak** - Overall effects of speed on M&A success: **weak**
	Low	Cell 3: - Beneficial effects of speed: **strong** - Detrimental effects of speed: **strong** - Overall effects of speed on M&A success: **weak**	Cell 4: - Beneficial effects of speed: **strong** - Detrimental effects of speed: **weak** - Overall effects of speed on M&A success: **strongly positive**
		Internal Relatedness	

Figure 8: Speed as a determinant for integration success (Homburg & Bucerius, 2006)

Figure 8, based on questionnaires of merging firms, suggests that speed alone isn't the determining factor for success or failure in PAI, but the combination of the level of speed and the existence of internal and external relatedness. If the company and the target company have high level of *external* relatedness and low level of *internal* relatedness (cell 1), the overall effects of speed on M&A success are strongly negative. This is most likely a result of that low internal relatedness (high deviation within culture, management style etc.) require more time and a smooth approach to avoid the target company's employees to perceive the acquisition as a hostile takeover.

High level of internal relatedness and low level of external relatedness, on the other hand, shows that the overall effects of speed on M&A success are strongly positive. In

this case both firms are already aligned culture and management style wise, but the products and target markets deviates. This means that more effort is required in terms of achieving synergy and in order to increase shareholder value, measures must be implemented as quickly as possible.

As to sum this up no research can prove that either a speedy or slow PAI has a direct positive or negative effect on the success of the integration. Instead, it is situational and depends on the conditions, characters and the level of internal and external relatedness existing between the two firms.

5.4 Measuring the integration process

After deciding how to approach the integration and the integration plan is made it's time to plan the monitoring and performance measurements of the integration process. According to Stephen Gates and Philippe Very (2003) there are two essential questions every integration manager should address; *which measures* are relevant for monitoring integration and *when* should acquirers set up these measures. There are several reasons why monitoring and measure the integration is important. To create value from an acquisition several objectives in different areas has to be achieved, and as the integration process is considered one of the most critical tasks to create value it is crucial that progress is monitored and changes discovered. To define the measures to monitor the progress it is important to identify the sources of value creation and value leakage in a particular acquisition. Monitoring integration means controlling and managing these sources, and thus measures which can be useful for tracking the integration progress can be derived from these value drivers (Gates & Very, 2003).

As all acquisitions have different characteristics, it doesn't exist a standard procedure to monitor the integration process. Instead, the elaboration of a measurement tool for tracking integration progress must stick to the design of the integration (Gates & Very, 2003). Gates and Very (2003) states that research suggest that the integration process falls under three main categories. First, it should be considered an *adaptive process*, which basically means that it is a learning process. Secondly, the integration should be considered a *process of several stages* where each stage has its own objective. Finally, the integration planning should *encompass the context of the deal.* These three

precautions influence the creation of a measurement framework to monitor integration progress.

5.4.1 Adaptive process

Even though research and this thesis argues that the integration plan should be planned ahead of closure, it doesn't mean that that plan is determined and can not be changed. The acquirer doesn't know everything about the target company, obviously, and therefore an adaptive integration plan is preferred compared to a rigid and pre determined one. As an acquirer you are not only facing the traditional environmental uncertainties, but also uncertainty about the target firm and synergies, and as the level of learning improves, mid-course corrections to the integration process can be made according to the occurrence of new events or to the discovery of unrevealed facts (Gates & Very, 2003). Without measuring the performance and monitoring the integration process, these new events and unrevealed facts will be discovered at a later stage and consequently chances for creating value decreases.

Integration as an adaptive process can be considered a learning process and thus continuity throughout the process is recommended. Normally, an acquisition goes through several stages or phases (the pre acquisition process, see section 4), which require different people with various expertise and knowledge. Finance and legal professionals usually conducts the valuation and negotiations of the deal. However, they often disband after completing their task, leaving the integration team to perform the integration (Gates & Very, 2003). In every transition from phase to phase where the people involved are changed knowledge and information are lost, and that's why researchers recently are arguing that acquirers can benefit from ensuring continuity between upstream and downstream activities (Gates & Very, 2003). To what extent the people involved in the pre acquisition phases are involved in the integration, or communicate with those who are responsible for it, determines how well information and knowledge are transferred between phases (Gates & Very, 2003). The knowledge transfer is vital to obtain a successful integration of the acquired company.

5.4.2   Contingent process

In section 5.1 different modes of integration is described. The mode that fit the particular acquisition also sets some prerequisites for how to monitor and measure the integration process. If an acquisition is considered to be in preservation mode, the integration and the measuring of the integration should take that into consideration and it will differ from the integration of an acquisition in absorption mode.

5.4.3   Multiple-stage process

Gates and Very also describes the integration process as a multistage-stage process, where they differ between the "the first hundred days" and the "capability transfer" stage. The objective in "the first hundred days" is to keep momentum of both companies and communicate the most important information to create an atmosphere that is favorable in order to realize the planned synergies. As the target company's employees fear loosing their jobs and the situation as whole create ambiguity among the involved, it is essential communicate well to reduce fear and ambiguity and get their commitment to the new project (Gates & Very, 2003).

When the desired atmosphere is obtained, the focus shifts towards the "capability transfer" phase. This phase is often divided into several sub-phases or tasks, but the overall objective is to realize synergies that will create the supplementary value expected from the deal (Gates & Very, 2003).

5.4.4   Measures derived from value creation and value leakage

The designs of the measurement tools need to be based on these three preliminary aspects (adaptive, multi-stage and contingent process) to be able provide the best possible measurement and monitoring of the integration. This statement by Gates and Very also argues why a standardized measurement framework is not recommended.
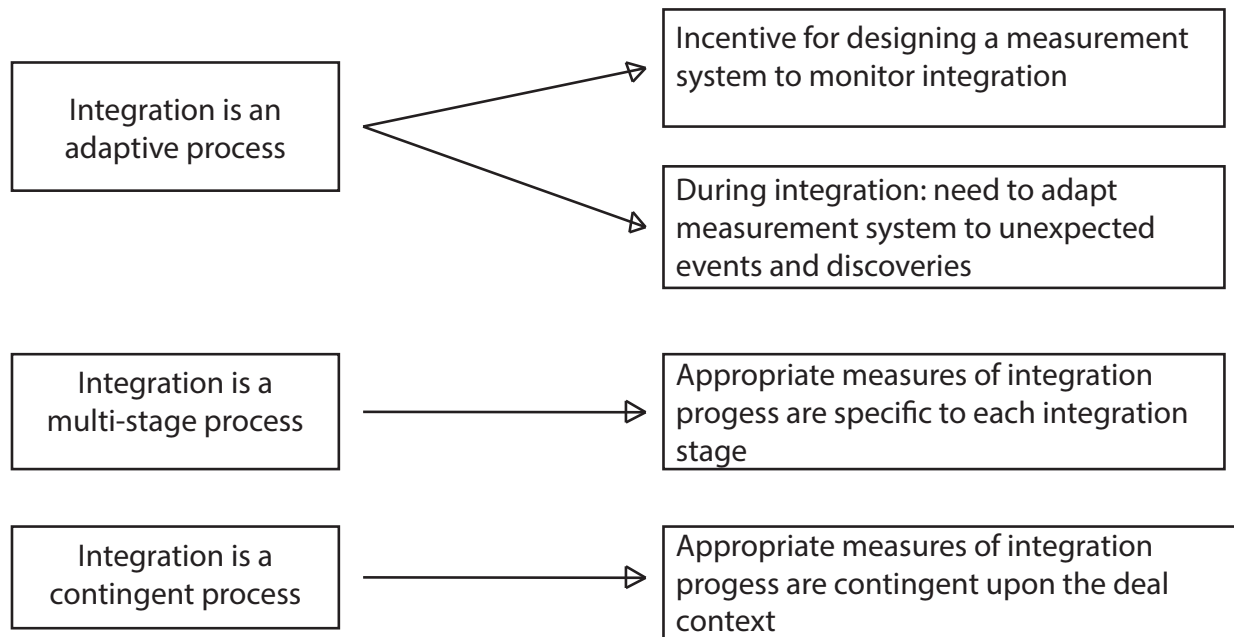
Figure 9: Integration characteristics and the measurement of integration progress (Gates & Very, 2003)

The next step to develop the integration measurement tools is to identify the sources of value creation and value leakage. It is vital to preserve the value of the companies involved as well as seek value creation from the benefits of the companies combined. As a consequence, the acquirer must control both value creation and value leakage, and therefore measures of integration progress can be derived from the identified value drives (Gates & Very, 2003).
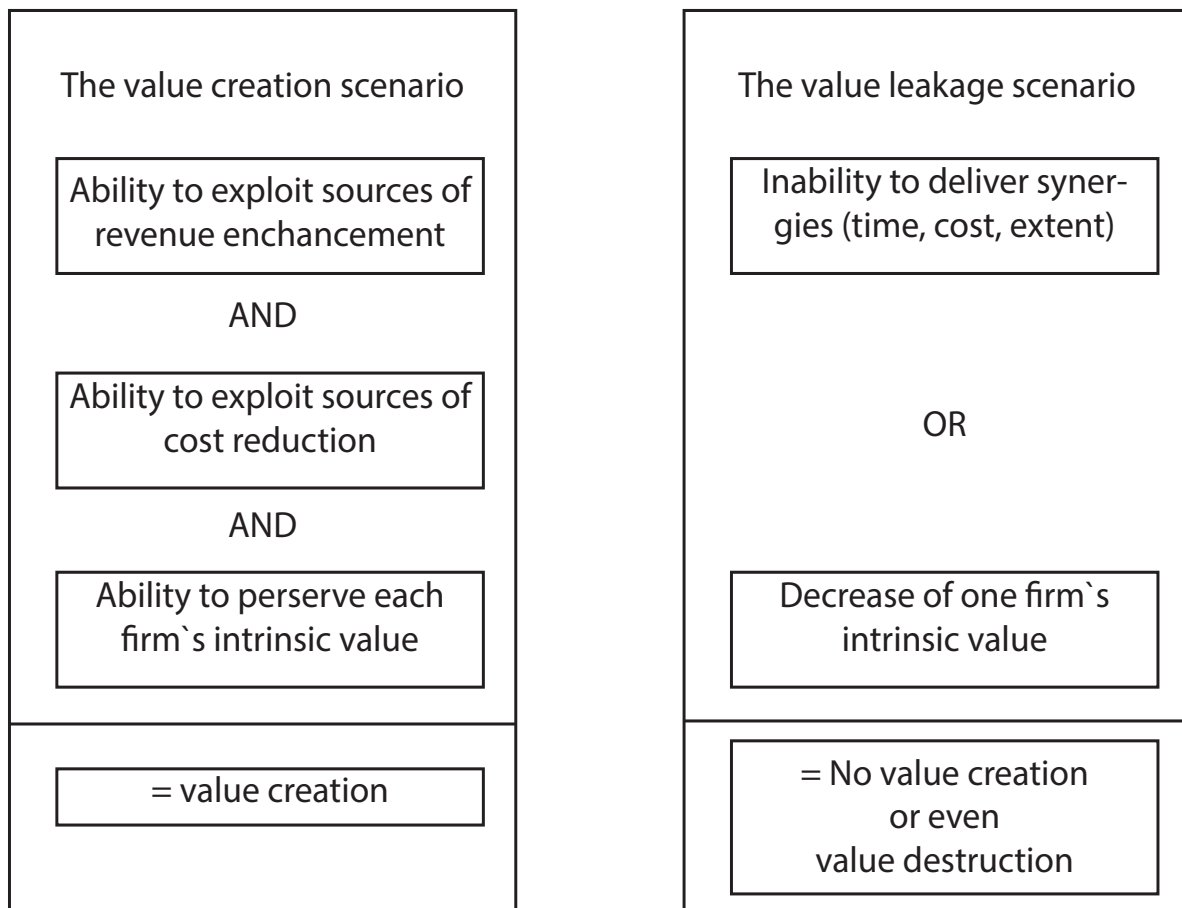
```
┌─────────────────────────────────┐   ┌─────────────────────────────────┐
│   The value creation scenario   │   │   The value leakage scenario    │
│                                 │   │                                 │
│  ┌───────────────────────────┐  │   │  ┌───────────────────────────┐  │
│  │ Ability to exploit sources│  │   │  │ Inability to deliver syner-│ │
│  │  of revenue enchancement  │  │   │  │   gies (time, cost, extent)│  │
│  └───────────────────────────┘  │   │  └───────────────────────────┘  │
│              AND                │   │                                 │
│  ┌───────────────────────────┐  │   │                                 │
│  │ Ability to exploit sources│  │   │               OR                │
│  │     of cost reduction     │  │   │                                 │
│  └───────────────────────────┘  │   │                                 │
│              AND                │   │                                 │
│  ┌───────────────────────────┐  │   │  ┌───────────────────────────┐  │
│  │  Ability to perserve each │  │   │  │   Decrease of one firm`s   │ │
│  │    firm`s intrinsic value │  │   │  │      intrinsic value       │ │
│  └───────────────────────────┘  │   │  └───────────────────────────┘  │
│─────────────────────────────────│   │─────────────────────────────────│
│  ┌───────────────────────────┐  │   │  ┌───────────────────────────┐  │
│  │      = value creation     │  │   │  │     = No value creation    │ │
│  └───────────────────────────┘  │   │  │          or even           │ │
│                                 │   │  │      value destruction     │ │
│                                 │   │  └───────────────────────────┘  │
└─────────────────────────────────┘   └─────────────────────────────────┘
```

Figure 10: Value creation and value destruction through integration (Gates & Very, 2003)

To be able to identify the value creation sources, the acquirer need to look at the synergies intended for the particular deal. If the planned synergy is to improve its negotiation power as a result of increasing the company size, they will have to monitor and measure the new deals they get with suppliers and bankers to see if additional value is created. Improving negotiation power can be considered a cost saving synergy, but monitoring cost saving as a whole might give the wrong picture of value created from acquisition. Lets have a look at an example of the importance of choosing the right monitoring and measurement tools.

"Company A acquires Company B with the intentions of improving their negotiation power towards finance institutions and suppliers. To measure that value is created they choose to monitor costs savings. Combining the two companies gives the new company an increased product portfolio and improved quality of their deliverables, which also give them new customers and increased sales. This results in hiring more employees to the sales force,

cost control and project management.   The consequence of these changes is increased salary expenses and increased overall costs for the company.

If they choose to measure the success of the acquisition based on overall cost savings, it will be considered a failure. However, the price/product and financing costs are reduced as result of the increased negotiation power and the sales increase as a result of an increased and improved product portfolio. The reality is lowered purchasing costs, increased sales and a greater margin."

To identify, control and monitor sources of value creation are considered crucial to succeed with an acquisition. However, identification and control of the sources that could lead to value leakage from the two companies are as important, but often less prioritized. The leakage of a firm's value can stem from external and internal sources. The external sources are primarily the environmental elements, where loosing clients and competitors' reactions are considered as key risk areas of value destruction. Vertical integration within an industry creates specific sources of value leakage that needs to be handled and monitored since the acquirer becomes a competitor of either its suppliers or its clients (Gates & Very, 2003).

Internal sources of value leakage are generally human resources, management processes and integration decisions (Gates & Very, 2003). On a human resources level risks are mainly related to the fear of the situation and the collective cultural resistance (see 7.2). Further, differences between the business processes of partners, especially the differences in information systems and HR policies, have been found to raise difficulties when integrating. Lastly, critical integration decisions affect both value creation and value leakage, especially those involving staffing and speed of the integration (Gates & Very, 2003). Staffing, in this case relates to the importance of assigning the right people to the right positions within the new structure of the company. The speed refers to the pace of the integration, and as the acquirer has planned a time horizon for creating value, the outcome of the integration must be obtained at the expected milestones (Gates & Very, 2003).

Figure 11 sums up how to identify appropriate measures for tracking the integration process and progress based on sources four parameters: Acquirer's strategy, sources of value creation, sources of value leakage and the integration plan. Further, the integration plan is based on the characteristics, conditions and the approach/mode of the integration (see 7.1 and 7.2).
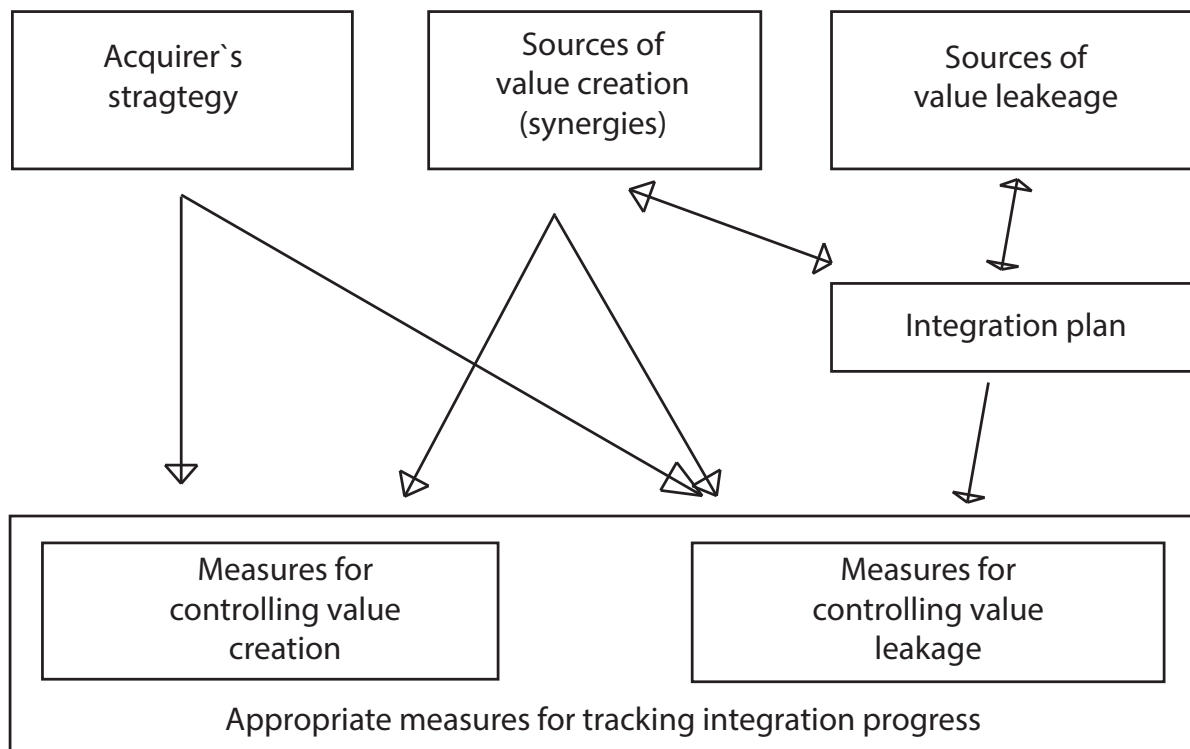

Figure 11: Contingency framework for identifying measures of integration performance (Gates & Very, 2003)

6 Methodology

This master thesis is analyzing the performance of "The Company's" integration of "Target Company" and whether it relates to the existing and applicable theoretical framework. To do so it is important to get multiple angles and perspectives of what actions that were taken and at what time of the integration process in order to get the full picture of the integration process.

6.1 Case study approach

In this thesis a case study approach is used in order to investigate and answer the problem formulation. According to Yin (2012) there's no formula to know if a case study is suitable, but the choice depends in large part on your research question(s). The more that your questions seek to explain some present circumstance (e.g. "how" or "why" some phenomenon works), the more that case study research will be relevant. The method also is relevant the more that your questions require an extensive and "in-depth" description of some social phenomena (Yin, 20012). The problem formulation of this thesis asks a "how-question", as Yin explains it. In addition the problem formulation and thus the research questions originated from a desire of broaden the knowledge related to *why* M&A hold such large failure rates. In order to do so, an extensive and "in-depth" description of the particular case is required and the most fitting method will be a case study.

6.2 Research approach

The data gathering consists of a mix of three methods: quantitative method, qualitative method and document analysis from internal sources, i.e. both primary and secondary data is applied. The following sub-chapters provide an explanation to why these methods have been used.

6.2.1 Quantitative data

To be able to analyze "The Company's" integration performance and collect data to conduct the case study three sources of data gathering are chosen. The first one, an employee survey, is chosen to get their angle and perception of what happened. The "regular" employees often perceive the integration process different from managers and

top-level management because of their role in the company. They don't know exactly what is happening, what changes will be implemented and how it might influence them individually or as a company. It is the integration team's mission and responsibility to reduce the employee's fear and increase/maintain their motivation to accept the changes that will be implemented in the process. Therefore, the employee's perception of the acquisition and integration process will provide important data of the performance of the human and cultural side of the integration.

The structure of the survey was built of three main categories (see appendix A): employee integration, cultural integration and system integration, where the questions' aim under cultural integration was to gain insight to the employees' perception of the cultural changes and how it affected their work. The next category, employee integration, seeks answers to what degree the employees was integrated and how the integration and acquisition affected their motivation and how they work. The last category, system integration, will try to answer how changes of processes and systems influenced their way of working and if it resulted in any reactions or complaints from vendors/suppliers or customers.

According to Gripsrud and Olsson (2000) surveys are an instrument in terms of gathering and standardize information from selected respondents. Further they distinguish between to ways of getting response:

- Open questions, where the respondents formulates their own answer
- Predetermined options of answer, where the respondents get to choose one or more (Gripsrud & Olsson, 2000)

The benefits of using open questions is that respondents get the opportunity to express him/her self with his/hers exact words and it eliminates the possibility of the survey missing what the respondent perceives as the correct answer. However, open questions also hold some disadvantages, where the most significant is that the answers is harder to standardize and the quality of the answers largely depend on the respondents skills and willingness to answer (Gripsrud & Olsson, 2000).

The survey of this thesis is designed with predetermined answer options, mainly based on two reasons. First, it requires less resource to process the data, which was important due to time constraints. Secondly, the survey was conducted partially to reveal specific areas that needed further investigation through in-depth interviews.

In order to seek the most accurate question possible the survey questions was build on Gripsrud and Olsson (2000) guidelines for question formulation:

- Use simple and distinct words
- Avoid leading questions
- Avoid implicit answer alternatives
- Avoid implicit assumptions
- Avoid generalization
- Avoid double questions

The survey was created and distributed online to reach as many in as little time possible. By conducting the survey online, the possibility of assisting the respondents if questions are unclear is eliminated. However, this was the only way of reaching out to so many people with the given time constraint.

6.2.2 Qualitative data

Getting the employees' angle and perception of the integration will not only provide data on the human and cultural integration, but also verify to some degree if the intended objectives of the integration team were achieved within the different departments (purchase, sales, finance etc.), which is the second source of data gathering. In this part in-depth interviews (see appendix B) with two persons involved in the integration within different departments were conducted. These interviews are based on findings in the employee survey that need further research in addition to questions that will provide more detailed information of the department-specific integration process.

Individual in-depth interviews are conducted when the individuals personal experience, opinions etc. is of interest. It is conducted by one-to-one situation, with an interview

guide as a guideline (Gripsrud & Olsson, 2000). The interview guideline was built based on important subjects from the theoretical framework that would provide answers to the research questions as well as it allowed the interviewee to add important information.

"The interview guide is the researcher's starting point and guideline for the interview. It should be sufficiently comprehensive and specific so that the researcher gets the relevant information, but at the same time it should be simple and general so that the interview can be conducted in a flexible way (Grønmo, 2004)". The interview guideline in this thesis is structure to be open ended for reflection by the interviewees. The interviews consists of some general questions to keep the interviews on track, but as the interviewees hold much more information than me in this case I find it important to keep a flowing conversation where additional information and reflection are allowed to be communicated.

6.2.3 Internal document analysis

The last source to collect data is information about the acquisition and key financial numbers, which have been gathered from internal documents. Grønmo (2004) argues that content analysis can be conducted on all types of documents such as text, numbers, audio or pictures. In this case content analysis of text and numbers have been carried out. The content analysis of text documents was to obtain information about the synergies and other information relevant for this thesis. Further, analysis of key financial numbers were conducted to see if objectives and synergies were achieved. The financial numbers for a given year have been converted to factor 1 and growth for the following years is presented as growth rates based on that to present the growth trend rather than the exact numbers. The reason for this is that "Target Company" wanted this to be confidential.

6.3 Source Credibility

In order to determine the credibility of this thesis it is important to reveal if the database, which is the foundation of the thesis, holds sufficient quality. To so it is important to evaluate the reliability and validity of the gathering and processing of data.

6.3.1 Validity

Validity is about the substance and legitimacy of the database and the problem formulation to be illuminated. The validity is high if the study and data gathering results in data that that is relevant for the problem formulation (Grønmo, 2004). The methodology of this thesis had high focus of collecting data that would directly answer the research questions and thus the problem formulation. However, this thesis is highly based on data received from interviews and a survey, which means that the validity of the data depends on the honesty, preciseness and memory of the interviewees and respondents. In an effort to secure best possible validity of the data interviewees was asked to confirm if the responses, that was not an individual perception of a problem, actually was the reality.

Grønmo (2004) distinguishes between internal and external validity and explains that internal validity primarily concerns if the experiment it self is satisfying performed to secure that the conclusion and causation is valid under the controlled investigation condition. In the quest to secure internal validity it is used both qualitative and quantitative data as well as the quantitative data is further investigated through interviews and qualitative analysis. The fact that both the qualitative and quantitative data gave the same data supports to some extent the validity of the data.

What undermine the internal validity are the number of interviewees and the risk of not choosing the right people to interview. In this thesis only two in-depth interviews have been conducted, which might be criticized. In order to secure that best possible interviewees have been chosen, two main criteria was used. First, they had been involved in the integration and secondly they had to have some management responsibility so that they experienced the integration on an overall level. This was done to get another angle of the integration compared to the survey, as well as they could provide explanation to some of the results in the survey.

External validity means that the results is realistic and can be generalized to common society situations, allowing the conclusion to not only be valid under the constructed examination conditions, but also in real social conditions (Grønmo, 2004). To ensure decent external validity the carefully selected theoretical framework are widely used in

the construction of the survey, the interview guideline and the analysis. However, the thesis' analysis and conclusion is based on qualitative data and qualitative analysis of quantitative data and therefore it can be difficult to generalize the findings. On the other hand this thesis provide some interesting findings that create a foundation for further research (see section 10.2) and thereby provides a result of value.

6.3.2 Reliability

According to Grønmo (2004) reliability refers to the trustworthiness of the databases. High reliability is obtained if a study can be repeated over and over again with the same results (Gripsrud & Olsson, 2000). This thesis consists of both qualitative and quantitative data, respectively interviews and survey. The information gathered in both cases is historical data about a finished event and in theory such a study could be done over again obtaining the same results. However, since the thesis consists of a case study highly based on qualitative data where subjective interpretations are drawn, and thus questions can be raised about the thesis reliability. Especially the interviews and the way were conducted weakens the reliability. The interviews allowed the interviewees to some extent to decide the direction of the interview, which make it difficult for others to conduct the exact same interviews obtaining the same data. It is therefore safe to say that the criteria for reliability aren't taken care of regarding the qualitative data.

Moreover, in any cases where a case study of one organization is performed the validity and reliability can be criticized since the conclusion rarely can be generalized and it often is based on qualitative data.

6.4 Sources of error

This thesis holds some sources of error that might affect the results and conclusion. The first, and most obvious one, is the timing of the thesis compared to the time of the acquisition. The thesis is written seven years after the acquisition was conducted and consequently details related to the integration might be forgotten at the time of the survey and interviews. Especially it might affect the employees' memory of when the various actions were implemented as well as the details of how it affected them.

Further, critic can be aimed at the amount of participants in the survey. A total of 53 out of 117 employees responded to the survey (some didn't finish it) and questions can be asked if this is large enough database to draw any quantitative conclusions. Also the fact that questions can be perceived differently from person to person might cause wrong distribution among the answer options. This ambiguity might be reflected in the results of the survey. Regarding surveys with predetermined answer options rather than the open questions risk of missing desired answer options exists, which also might be the case in this survey.

In terms of the interviews, chances is that not all the right questions have been asked as result of my limited knowledge of this specific integration process when the interviews were conducted. In order to try to avoid that, open questions were asked to allow the interviewee add additional information they found important for the thesis. Even if the interviews were anonymous, the interviewees might hold back important information, which might limit the information provided. Further only two interviews were conducted and critic targeting the number of interviewees is relevant. However, in this part of the data gathering the focus was towards the quality of the response rather than the quantity.

When it comes to qualitative data, in this case interviews, there is always risk related to how the interviewee perceives the question and how the interviewer perceives the answer. This could cause unwanted deviations between the interviewee's message and what is reported on paper.

7 Background for the acquisition

In this section a brief introduction to the background of the acquisition and this thesis will be presented to help the reader get an idea of the circumstances surrounding the acquisition and the PAI process.

7.1 "The Company"

The acquirer in this thesis is referred to as "The Company" since they want to stay anonymous, but a brief description will be presented so the reader can better understand the scope and actions discussed in the following sections.

"The Company" is an American company operating in multiple business sections worldwide, including the oil and gas business. It is their oil and gas division that is presented in this thesis who conducted the acquisition and was responsible for the integration process. "The Company" provides drilling solutions, offshore solutions and subsea solutions for their costumers in several countries (internal resources, 2014). "The Company's" oil and gas business were established only a few years prior to the acquisition and the acquisition can be seen as a measure to position themselves in the oil and gas industry for further development and growth.

7.2 "Target Company"

"Target Company" was an international oil and gas company with Stavanger as one of their key offices. "Target Company" was one of the leading drilling, production and completion supplier for offshore and onshore oil and gas fields before they were acquired. They had gained foothold in more than 30 countries and employed about 5,000 people. In addition to aftermarket services their major products included "Christmas trees", control systems, manifolds, risers and wellheads (internal resources, 2014).

7.3 The acquisition

"Target Company" was owned by a technology driven company until 2004 when three major private equity firms acquired them. At this time "The Company" already considered to acquirer "Target Company", but refrained due to compliance issues that

could have hurt the company brand. However, the private equity firms saw an opportunity to get a decent return on investment by clearing out the compliance issues and prepare "Target Company" as an organization to sell to "The Company". As a result little attention were paid to developing "Target Company's" technological and business aspects, and there were signs of relief when a more technology driven company with the intentions of developing and growth acquired them early 2007 through "The Company".

8 Results

8.1 Employee survey

The employee survey is divided into two sections; the first phase and the second phase of integration. The first phase is focusing on actions taken the first months after the acquisition where the main objective is to create a favorable atmosphere among the employees and integration of the most important features such as salary payment and HR systems. The second phase concentrates more on integration of IT systems, processes and culture as well as how this affected customer and supplier relationship.

8.1.1 Basic information

Question	Responses	Results	
Q1: Are you familiar with "The Company's" acquisition of "Target Company?	53	YES: 98% NO: 2%	 Chart: YES 98, NO 2
Q2: When people ask where you work, what do you respond?	65	"The Company": 74% "Target Company": 26%	Chart: "The 74, "Target 26
Q3: What is your position/role at "The Company"?	54	Finance: 6% Sales: 5% Proj.Mgmt: 30% Engineering: 15% Sourcing: 1% Workshop: 19% Other: 24%	Chart: Finance 6, 5, Proj. Mgmt 30, 15, Sourcing 1, 19, Other 24

Table 1: Basic information from employee survey

8.1.2 First phase of integration
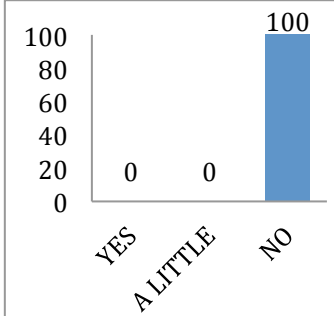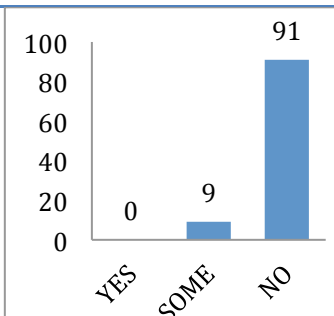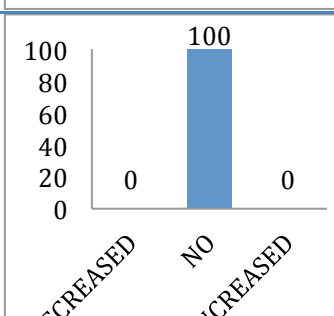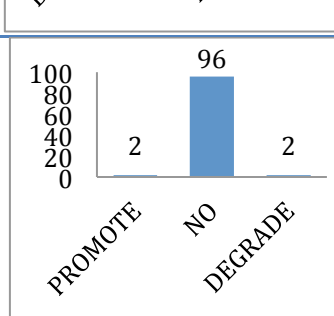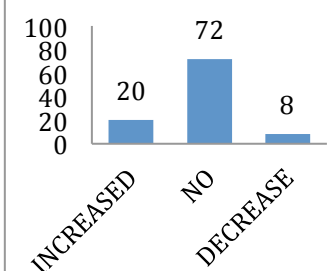
Question	Responses	Results	
Q4: In the period after "The Company" acquired "Target Company", did fear that you would loose your job?	50	Yes: 0% A little: 0% No: 100%	Bar chart: YES 0, A LITTLE 0, NO 100
Q5: Was it any problems (delays, deviations in amount) with payments of your salary the first three months after the acquisition?	50	Yes: 0% Some problems: 9% No: 91%	Bar chart: YES 0, SOME 9, NO 91
Q6: Did your salary change within the first three months after "The Company" acquired "Target Company"?	51	Decreased: 0% No: 100% Increased: 0%	Bar chart: DECREASED 0, NO 100, INCREASED 0
Q7: Did your role/position change within the first three months after "The Company" acquired "Target Company"?	51	Yes, promoted: 2% No: 96% Yes, degraded: 2%	Bar chart: PROMOTE 2, NO 96, DEGRADE 2
Q8: How did the acquisition affect your motivation to do a good job?	51	Increased: 20% No change: 72% Decreased: 8%	Bar chart: INCREASED 20, NO 72, DECREASE 8

Table 2: Employee survey results from phase 1 of integration

8.1.3 Second phase of integration

Question	Responses	Results	
Q9: How well did "The Company" communicate their culture?	51	No communic.: 16%	
		Some communic.: 59%	
		Well communic.: 25%	
Q10: What channels were used to communicate culture?	64	None: 8%	
		Internet: 64%	
		Seminars & course: 17%	
		Other: 11%	
Q11: Were there any changes in the IT systems after "The Company" acquired "Target Company"?	55	SAP: 8%	
		eBIZ: 9%	
		IM Toolkit: 45%	
		Other: 33%	
Q12: When was IT systems changed?	45	1-3 months: 20%	
		3-6 months: 18%	
		6-12 months: 40%	
		>12 months: 22%	
Q13: Did "The Company provide any training to handle the IT changes?	45	No training: 36%	
		Some training: 51%	
		Sufficient training: 13%	

Question	Responses	Results	
Q14: Did any customers, suppliers or vendors react to the changes of systems and processes after the acquisition?	46	Yes, negatively: 29% No reaction: 54% Yes, positively: 17%	
Q15: To what extent do you think the acquisition was a success? 1 is NOT successful and 5 is VERY successful	47	1: 2% 2: 6% 3: 34% 4: 45% 5: 13%	

Table 3: Employee survey results from phase 2 of integration

8.2 Findings from interview

The interviews focused on task integration and its timing and related effects. In this sub-chapter a summary of key findings from the interviews will be presented. These findings will be discussed and analyzed in detail in the analysis chapter.

Change as a result of integration	Timing	Effects
Focus on compliance	Immediately after acquisition	- Prohibit all customer/supplier relations that can be perceived as bribe. (Christmas gifts, lunches, travels etc.) - Stricter requirements towards choice of suppliers
EHS	Within first 3 months of acquisition	- Stricter EHS rules at workshop - New EHS reporting system - Higher focus on avoiding negative environmental effects from operations
Financial goal setting	Within one year of acquisition	- Increased focus on financial goal setting. - Increased (especially up-stream) and restructured reporting - New reporting system and content of reporting. - Little benefits in the start as no training to handle the changes were provided
Communication system	One year after acquisition	- Outlook replaced Lotus as the main communication system to align communication & reporting systems with "The Company's"
EMS	2 years after acquisition	- Better performance measure of employees and their personal objectives - Outline of career path & promotion - Identification of relevant courses & education - Identification of candidates for internal hiring

Change as a result of integration	Timing	Effects
Project Management	5-6 years after acquisition	- Project management process was changed to "gated process" to achieve better control and performance of the projects. This stage gate process was based on the project management process used in "The Company's" aviation division
Project contract routines	N/A	- "Target Company" often started projects based on an oral agreement and received a purchase order at a later stage. This is changed, and now no work starts until a purchase order is received and project terms is agreed
Organizational structure change	N/A	- Better monitor & measurement of each function - Less ownership towards project & related performance

Table 4: Summary of findings from interview

8.3   Key financial numbers

To get an insight into "The Company's" financial performance pre and during integration, some key figures will be presented from this timeframe. First and foremost growth in revenues and costs are interesting numbers in order to paint a picture of the overall performance.

	2006	2007*	2008	2009	2010	2011	2012
Rev.	1	1.58	1.44	0.98	0.97	1.44	1.12
Cost	1	1.58	1.39	0.99	0.97	1.49	1.11
Profit	1	1.57	1.81	0.93	0.98	1.18	1.16

Table 5: "The Company's" yearly growth in revenues, costs and profit since acquisition

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* The year of the acquisition

	2006	2007*	2008	2009	2010	2011	2012
Rev.	1	1,58	2,28	2,23	2,18	3,14	3,51
Cost	1	1,58	2,20	2,17	2,12	3,15	3,51
Profit	1	1,57	2,84	2,63	2,57	3,03	3,51

Table 6: "The Company's" accumulated growth in revenues, cost and profit since acquisition

	2006	2007
"The Company"	0,81	N/A
"Target Company"	0,19	N/A
Combined	1,00	1,29

Table 7: Comparing of the merging firms pre revenues with the revenue of them combined post acquisition
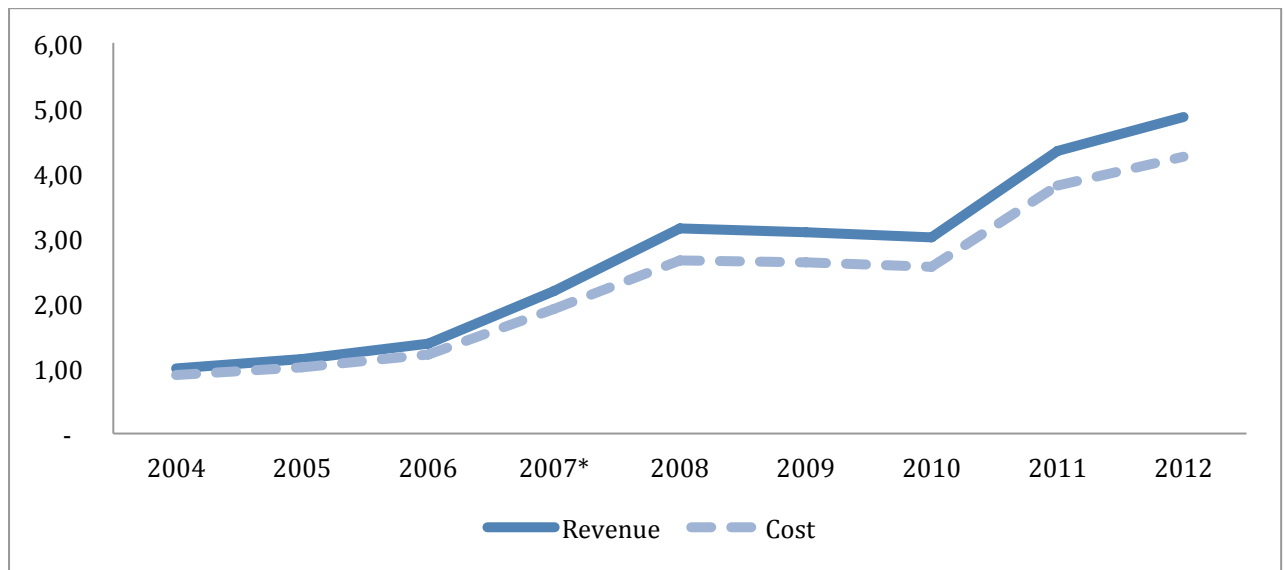

Figure 12: Graphic view of revenue & cost pre & post acquisition

9 Analysis

9.1 "The Company's" overall performance

In January 2007, the chairman stated that "The Company's" goal was to reach X millions in revenues by 2010, and the acquisition of "Target Company" would play a decisive role in order to realize that objective. The 2010 objective required a revenue growth of 230% compared to the revenue generated in 2006, so it might have been perceived as a hairy goal. However, already at the end of 2008 "The Company" had achieved increased revenue of 228% compared to the yearly revenue of 2006. Unfortunately the financial crisis hit the oil and gas industry by 2009 (Lew Watts, 2009), and consequently the objective was not met by 2010. Still, it was an incredible effort to grow the revenues with 228% within two years of the acquisition and there is no doubt they would have achieved their goal if it weren't for the environmental circumstances at the time.

Analyzing the revenues from prior to the acquisition to today outlines a rough picture of the how successful the acquisition, and thus how the integration turned out.

	2004	2005	2006	2007*	2008	2009	2010	2011	2012
Rev.	1	1.15	1.21	1.58	1.44	0.98	0.97	1.44	1.12
Cost	1	1.14	1.19	1.58	1.39	0.99	0.97	1.49	1.11
Profit	1	1.24	1.33	1.57	1.81	0.93	0.98	1.18	1.16

Table 8: "The Company's" yearly growth of revenues, cost & profit

Table 8 shows the yearly growth in revenues, costs and profit. The first year after the acquisition gave 58% growth in revenues while the second year gave 44% growth in revenues and as much as 81% profit growth. These numbers are considerable higher than the growth rates from the two years prior to the acquisition. The two most significant numbers in table 8 are the revenue growth rate in 2007 and the profit growth rate in 2008. An announcement made by "The Company" early 2007 describe

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* The year of the acquisition

some of the desired benefits (synergies) from the acquisition, which might give some explanation to those numbers (Internal sources, 2007):

- Customers (of "The Company") will gain access to a considerable enlarged portfolio of products and services.
- "The Company" will expand its opportunities for growth in new industry segments such as drilling, completion and subsea production.

The fact that "The Company" enlarged its product and service portfolio with the acquisition seems to have influenced the sales positively already in 2007. Furthermore, access to new markets and industry segments probably caused increased sales numbers. As the announcement explains, "The Company" wanted to create value from the acquisition by diversify/increase their product and service portfolio as well access new markets by gaining foothold in new countries and thus access to new customers. A 58% increase in revenues indicates that at least some of the benefits from the deal have been achieved.

The next number of interest is the profit growth rate of 81% in 2008, quite significant compared to growth rates of 24% and 33% prior to the acquisition. In 2008 "The Company" increased its revenues with 44% while the costs were increased 39%. Without drawing any conclusions, the highly increased profit may have originated from a synergy referred to as economy of scale. Sharing tangible resources is one way of reducing costs, but more relevant in this case is the scale of procurement and "pooled negotiation power". Larger purchases of resources provide lower unit prices, which represent a large share of the expenditures in this business. Moreover, the financial power of "The Company" might have resulted in improved deals from financial institutions.

It is safe to say that the numbers of 2007 and 2008 are interesting, however, no concrete conclusion can be drawn from those numbers, as it only spans over two years and there can be several reasons explaining that particular growth. For a more accurate analysis of the key financial numbers an analysis that spans over several years pre and post the acquisition has to be conducted. Unfortunately in this case, the financial crisis

in 2009 provides an unrealistic picture of the longer-term post acquisition trend. What can be said about 2009 and 2010 though, is that keeping revenues that close to the same of 2008 is very good considering that competitors were hit hard by the collapse in demand for oil and thus a collapse in oil price (Lew Watts, 2009). For further explanation of these financial numbers a dive into integration details and the actual performance of this task is required. The following sections will look into the actions taken by "The Company" in order to integrate "Target Company" and realize its desired synergies.

9.2 Phase 1: Employee integration

According to Venema (2012) the main objectives of phase one of integration is securing that administrative actions to ensure that payroll and benefits of the target company is not interrupted while integrating these processes into the new HR system. Further, the acquirer should ensure that key personnel are retained and, by communicating the future plan, ensure that fear and anxiety within the employees is kept to a minimum. The results from the survey indicate that these actions were conducted successfully. All respondents unanimously answered that they did not fear to loose their job and 91 % reported no problem related to salary. Moreover, only 8 % responded decrease of motivation, while 72 % respondents maintained the motivation and 20 % experienced increased motivation.

So, why were the employees so positive to the acquisition? If we take a look at the history of "Target Company" and the first couple of months of integration some answers to this is revealed. First of all, the employees of "Target Company" are used to change of owners, but this acquisition provide them with an owner that has a history of long-lasting ownership of their companies and therefore a stable future. Another factor is that "The Company" is a technology-driven company, which suits "Target Company" better than being owned by private equity firms. After some "slow" years under the former ownership where their profit wasn't reinvested, they were now set to develop and grow as a company again. These facts provide some explanation to the positive atmosphere and motivation.

In addition "The Company" invited all employees to a kick-off meeting where an introduction to "The Company's" culture, structure, integration process and future plans was explained. This is a good example of direct communication to reduce fear and anxieties as well as making the employees feel as a part of "The Company" immediately. The messages from "The Company" were perceived well from the employees and the foundation for further integration was established.

A small, but symbolic, change made by "The Company" was the tightening of project executing routines, which gave the employees an idea of the routines "The Company" was working by. Previously "Target Company" often started projects for their clients based on an oral agreement, and there is a potential risk to do that, as they had no purchase order from the customer and the job can be canceled without getting paid. "The Company" immediately changed this, and now no work is done without a written purchase order. This little change is symbolic as it showed the employees the start of a new and more structured way of working.

9.3   Phase 2: Task integration

At this stage, when the atmosphere is set, further integration of culture, systems and processes should follow. According to the survey there were mixed opinions on how well "The Company's" culture was communicated. Only 25 % of the respondents felt that the new culture was well communicated and there was little face-to-face interaction in the process of doing so. Mostly internet sources like e-mail and online training were used, while 17 % responded that seminars and courses was used. According to the interviewees the seminars and courses were mainly arranged for top-level executives and managers and their task was to pass on the information. However, important information is often lost when going through several levels and that might be a reason for why employees argued that there were lack of communication of culture. Moreover, a new company culture isn't a simple feature that is implemented on a one- or two-time event. Bijlsma-Frankema (2001) argues that in order to integrate a new culture mutual trust between the parties must exists and therefore trust can be seen as a channel of cultural transformation. So, to incorporate a new culture in a well established working environment require time and is considered a learning process

more than an overnight change, and might therefore not be recognized as a specific change at a specific time.

One of two cornerstones of "The Company's" culture is their compliance policy. The compliance policy was one of the first actions of integration and spans over both phase one and phase two of integration. Compliance is of high priority of "The Company", especially since being on the NYSE. The scope of the compliance embraces all actions that may affect "The Company's" brand negatively and strict rules towards gifts, dinners, travels etc. that may be perceived as bribery was implemented. Further, requirements towards suppliers, sub-suppliers and customers were created to ensure that they are operating in an acceptable way.

EHS is the other cornerstone of "The Company's" culture. The integration of the new EHS framework was, as with the compliance, overlapping the two integration phases. Along with enhanced rules and routines related to EHS, "The Company's" in-house developed reporting system was implemented. EHS goals and objectives are conveyed downstream and workplace injuries, illness and environmental damage are reported upstream. With this application integrated, all relevant information is collected in one place and communicated efficient with the overall goal of minimizing risk, accidents and environmental impact from operation.

EHS is extremely important for "The Company". "EHS and security are the bedrock of our business. Our commitment to safe and secure environment is fundamental to reliable and competitive operations. This in turn enhances "The Company's" reputation, and ultimately grows our business (Internal sources, 2010)". Since the implementation of improved EHS routines and reporting system illness rates, accidents and lost time cases are all down (Internal sources, 2010). Converting this to monetary value is a complex task, however, it is safe to say that value was created from the integration of EHS procedures and reporting system.

In order to synchronize and streamline communication, integration of a new communication system was implemented in 2008. Outlook replaced Lotus to align "Target Company's" communication system with the one of "The Company". As with the

EHS reporting system this was implemented to collect and transfer all information with one system. The effect of such action is increased pace of communication and facilitates better cooperation between the functions of "The Company" and "Target Company".

Along with the new communication system came a new financial reporting system and increased upstream financial reporting. The implementation of the system was quick and efficient, but no training to handle the change was provided. The integration of the new reporting system and content of reporting is what Gates and Very (2003) refers to as capability transfer. In this case the instruments (new system) was transferred well, but poor monitoring of the integration process lead to little benefit realization. As "The Company" didn't provide any training to handle the changes of system and/or content in the reports, the desired benefits stalled. This is a typical example of lack of integration progress monitoring and control of value creation; new system is implemented, but without improved results and no follow-up to correct it. The result of incomplete integration or capability transfer is postponed synergies, frustration and unrealized value or even value leakage. At "Target Company's" Stavanger site it took around two years until this part was considered finished integrated and "The Company" could start benefit from the change.

Two years into the integration an employee management system (EMS) was implemented. EMS is a system to measure employee performance, set personal objectives and define individual career paths. By collecting all this data in one system it provides the HR function with information to identify candidates for internal hire (promotion/new position) as well as it makes employees assure of their objectives and the measures to reach the objectives. By integrating "Target Company" into this system, access to an enlarge talent pool is gained as well as the employees can exploit the opportunities that exists within "The Company". By utilizing this system employees originally employed by "Target Company" can be hired in positions in "The Company" and vice versa. Along with such transfers comes a possibility of the well known synergy *shared know how*. By switching to/from positions between the functions within the originally separated companies, knowledge about processes, products, project management, geographical area and business in general can be shared and improvements implemented. After a few years this system started to pay of. Managers

from "The Company's" aviation branch were hired in manager positions within the original "Target Company" positions to improve processes. Compared to the oil and gas business, aviation has far more experience and knowledge in streamlining production and processes and this knowledge is now shared through integration.

Analyzing the system integration on an overall level a realization of, or at least an attempt to realize, two know synergies is revealed; sharing of tangible/intangible resources and sharing of knowledge. Sharing of tangible resources often refers to sharing of physical assets such as sharing of manufacturing facilities, storage etc. But in the business world of today, where information technology plays such a decisive role, sharing of virtual recourses such as IT systems can provide benefits and has to be seen as a tangible resource. In this case "The Company" attempted to enhance intangible assets and share knowledge by aligning systems (sharing tangible assets).

In order to be successful with such an actions two main tasks needs to be conducted. First, the actual implementation of the systems has to be carried out. This has to be done to achieve seamless interaction between the two companies. According to the interviewees and the employee survey this seems to have been executed well. The survey revealed that IT systems were changes continuously the first year. The changes were relatively even distributed between Q1, Q2, second half and more than a year after acquisition, which means that changes wasn't forced upon the employees all at once. This was backed by the interviews, where it was said that new systems were effectively put in place.

The second main task is to monitor integration progress to ensure value creation instead of value leakage (Gates & Very, 2003). By changing systems there is a potential of loosing value if training to handle the new systems and/or progress monitoring is insufficient. In this case both lack of training and progress monitoring seems to be the reality. Only 13 % of the employees reported that there were sufficient training to handle that changes of IT systems, while 51 % said that it was some training and as much as 36 % didn't get any training at all. This was further investigated through the interviews where it was backed by the interviewees. Especially the financial reporting system and the content of the reporting was a problem. It took a couple of years until

this was performed without any problems, meanwhile little actions to improve this was done by "The Company".

In figure 10 Gates and Very illustrates "The value leakage scenario" and one of two reasons for value leakage is "inability to deliver synergies (time, cost, extent). In this particular example the extent of the change and the time of fixing it was the main synergy barriers. "The Company" may not have seen this as a potential source of value leakage and thus paid little attention to it.

So, to sum up the system integration "The Company" executed the implementation of the systems itself decently, while the training and progress monitoring was absent. The result is postponed synergies or even value destruction. The reason for the lack of training and monitoring may stem from an incomplete integration plan as a consequence of "The Company" not considering the system integration as a source of value leakage. Figure 11 illustrates the relationship between the integration plan, source of value leakage and measures for controlling value leakage, which in this case was absent.

The integration of the employees and the systems they used were not the only changes "The Company" did to integrate "Target Company". Some years into the integration changes were done to the structure of the organization. Previously the organization was structured as project teams consisting of all necessary function to execute a project. The consequence of the organizational structure change was that all support functions within the project teams were taken out to create groups of their own. Now, sourcing, bidding, workshop, finance controllers, engineering etc. became individual groups supporting all projects. The objective was to streamline all individual functions and increase segregated control. However, another consequence also followed; the support functions lost ownership of the projects, as they did no longer have direct responsibility for particular projects and consequently motivation and the eager to deliver good results decreased.

Anyhow, this seems to be monitored more closely by "The Company" as one of the interviewees explained that, despite not being exactly the same, they are slowly moving

back towards the original structure. This is another example of an attempt to utilize shared know how, as "The Company" made an effort to share best practice examples and combining core competencies into one work model (Gold and Campbell, 1998). Gates and Very (2003) argues that integration should be an adaptive process and that the integration plan needs to have some agility to it. In this case this seems to be true. "As an acquirer you are not only facing the traditional environmental uncertainties, but also uncertainty about target firm and synergies. And as the level of learning improves, mid-course corrections to the integration process can be made according to the occurrence of events or to the discovery of unrevealed facts". After realizing that the desired effects did not materialized as desired, mid-course corrections were made to reach the most efficient structure as possible. The need to do these mid-course corrections can only be discovered by close progress monitoring and measurement of the integration process.

The last major action by "The Company" was the implementation of a new project management model called "Stage gate process". The stage gate process was extracted from "The Company's" aviation branch and the objective was to streamline the project process. The stage gate process is different from the previous one as it provides a standardized project WBS structure. In addition to the timesavings it provide, it better displays at which stage of the project the value is created and where to improve. The implementation of this project model from the aviation branch illustrates another synergy realization derived from shared know how as knowledge is shared to improve the current situation.

9.4   Identification of integration mode

To be able to evaluate a particular PAI it is vital to determine the mode of the acquisition and thus the required approach to integration. To identify what approach that will fit the given acquisition Haspeslagh and Jamison (1991) have developed a two by two matrix based on the need for organizational autonomy and the need for strategic interdependence (figure 6). The four categories in the matrix consist of preservation mode, symbiosis mode, absorption mode and holding mode, and the positioning of the acquisition sets the prerequisites for how to perform the integration process.

In order to place "The Company's" acquisition of "Target Company" in one of the boxes we need to take a look at the background of the acquisition and the planned synergy realization. "The Company's" motivation and drive to acquire "Target Company" is pretty clear; they wanted to gain access to new products as well as new markets. In contrast to most acquisitions the need for strategic interdependencies in order to realize these synergies are minimal. Access to an increased product portfolio and new market is basically achieved the moment the deal is closed. The challenges with this acquisition were more towards utilizing the opportunities the acquisition gave and strive to maximize the acquired features.

Moving on to the other dimension of the matrix we need to analyze the need for organizational autonomy. "The Company's" oil and gas branch was relatively new at the time the acquisition took place unlike "Target Company" who was a well established in this business. The acquisition provided "The Company" with new products and access to a new market they had little experience with, in other words, the acquisition fit the profile of being horizontal rather the vertical. According to Haspeslagh and Jemison a horizontal acquisition that also has low need for strategic interdependencies has a high need for organizational autonomy and thus preservation mode is preferred. In this mode, the recommended approach to the integration involves keeping both companies relatively divided and changes are made carefully to develop some new features without eliminating the already existing strengths of the companies separately (Haspeslagh & Jemison, 1991).

This particular acquisition fit the top left box (figure 6) i.e. preservation mode. The fact that it calls for preservation explains what many will argue is low level of integration. If the acquisition had been in absorption mode, maybe the most common one, a higher level of integration to achieve strategic interdependencies and the related synergies would have been required. But in this case, "Target Company" holds much more knowledge about the market and products, and for "The Company" to intervene with a lot of changes would probably have caused value leakage rather than value creation. Therefore, "The Company" seems to focus their integration on avoiding value leakage of both firms by preserving each other's strengths and slowly reach in to "Target Company" to achieve synergies continuously.

9.5   Speed of the integration

Little by little "The Company" has aligned systems, improved processes, shared knowledge and enhance intangible resources throughout the integration, but the process have been very time consuming, and time is money. Could "The Company's" integration been more successful with a faster integration? In terms of deciding the speed of integration and how it affects the outcome we need to look at the circumstances surrounding the acquisition. Homburg and Bucerius (2006) argue that a determining factor for the speed of integration and the associated success depends on the level of relatedness. To analyze if the chosen speed of integration has been effective or not an analysis of the two companies internal and external relatedness is required. The internal relatedness, which refers to management style, culture and premerger performance, are low in this case. Especially culture and management style were different, as "The Company" (as a whole) is an American based company developed over more than a century.

Looking at the external relatedness pre acquisition it is found that there is low relatedness. While "The Company" originally focused on "new product market", "Target Company's" focus was towards the "service and maintenance market". Combining low external and low internal relatedness the acquisition fits in cell 3 of figure 8. According to Homburg and Bucerius there exist both beneficial and detrimental effects, resulting in the overall effects of a speedy integration to be weak. The beneficial effects is to align external factors quickly to gain economies of scope/scale, but it is difficult as the sources of value leakage is many when internal relatedness is low. Low internal relatedness itself is a barrier to high speed of integration since the target company's employees will perceive loads of early changes as a hostile takeover. In such cases a smooth approach is recommended to avoid cultural resistance.

Both the mode of integration and the companies' pre acquisition internal and external relatedness suggest high organizational autonomy and lesser change, and that is clearly reflected in this case study. Over the years systems and processes has been integrated, but no major changes such as sharing of tangible resources, such as shared manufacturing facilities and workshops, to achieve economies of scale is done. The

reason why is the circumstances, condition and motivation behind the acquisition. The circumstances wouldn't allow a quick integration and "The Company's" desired synergies weren't depending on such actions.

10 Conclusion

This thesis tries to answer how well "The Company" performed PAI after the acquisition of "Target Company". The first research question in order to determine this is "*what type of synergies were planned to be obtained and how were they planned to be achieved?*"

10.1 "The Company's" synergy realization

Literature is suggesting many ways in order to determine whether an acquisition and the following integration has been successful or not, which explains the variations and disagreements related to acquisition success rates discussed in the introduction of this thesis. However, it seems to be consensus towards the "1+1 = 3" concept that basically means that for an acquisition to be successful the value of the merging companies combined needs to exceed to the sum of the two companies separated.

Comparing the revenues generated by the two companies separated in 2006 with the combined revenue generated in 2007 (a year into integration), we see a 29 % increase (see table 7). The revenue growth in 2007 is much higher than both companies managed the two previous years separately. Even though this isn't concrete evidence of that revenue growth was a result of synergy realization, it most certainly provided a boost to the growth to some degree.

In this case it is interesting to see where the possible synergies originated.
The analysis of the integration and the background of the acquisition revealed that the desired synergies and the value created mainly was a result of the *pre* acquisition phase. Pre acquisition actions such as identification of the best possible target company, and the valuation of it, held the possibilities of value creation since the benefits of accessing new markets and new products are achieved the moment the deal is closed. In other words, the most important action in order to achieve the desired synergies and create value was within the strategies behind the deal and to find a target company that fit those strategies.

The analysis also revealed that the acquisition was in preservation mode with high need for organizational autonomy. High need for organizational autonomy, as well as that the

synergy possibilities mainly stems from the pre acquisition phase, required less integration and more focus on avoiding value leakage. The results and analysis shows that the main source of value leakage was within system integration. After doing a good job with the employee integration that is the foundation for further integration, the implementation of systems it selves was done effectively. Anyway, "The Company" must have overlooked the following part as potential value leakage source as little training to handle the systems and monitoring of the system integration progress was absent. The result was postponed utilization of the benefits of sharing systems. Finally, when employees started to get familiar with the new systems it started to pay off, primarily in terms of knowledge sharing.

In order to answer the second research question *"To what extent the integration process proceeded according to the theoretical framework?"* the survey and interviews showed that "The Company" followed the guidelines in the theory relatively close. "The Company's" integration clearly distinguished between the first and second phase of integration, took the mode of the integration into consideration hence the focus on preserving the best from both organizations and performed the necessary task integration actions in order to implement vital systems. Further, the internal and external relatedness of the two companies explained to some degree what many would define as a slow and low level of integration. As Homburg and Bucerius (2006) explains, the overall effects of speed on M&A when low level of internal and external relatedness exists is weak (see figure 8). However, that's a result of that both beneficial and detrimental effects of speed is strong, and in my opinion "The Company" failed to balance this. To avoid *detrimental* effects of speed monitoring value leakage sources is crucial, but in this case it seems to have been abandoned. Moreover, as a result of the duration of the integration that has been going on for many years, questions about the utilization of the *beneficial* effects of speed can be raised.

The last research question in order to answer the problem formulation was "*what was the successful parts of integration and what should have been done differently?"* The previous research question assist in answering this question since it explains where the integration follows and deviates from theory. So, mainly the most successful parts was the quick and effective human integration referred to as phase one of integration.

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Further, "The Company" clearly took into account the mode of integration as a result of the circumstances surrounding the acquisition. On the negative side, they didn't control the value leakage sources very well, and consequently some value from combining the companies is lost. This could have been handled with better monitoring, follow up and training to handle the changes.

10.2 Further research

The thesis only present data from one case study and therefore generalization of the findings cannot be done, but some of the findings provide an interesting foundation for further research. The speed of integration is already an under researched subject within M&A and it would be interesting to investigate how speed relates to the mode of integration and if there exists opportunities of standardizing timing of task integration based on the integration mode. If such a relation exists a lot of time and money could be saved in both integration planning and execution.

Another subject for further research derived from this thesis is to look into value creation and leakage sources and how to identify, monitor and control them. The value leakage and creation sources are the crucial factors for whether an acquisition turns out successful or not. This thesis' findings suggest that the value leakage sources can be identified based on the mode of integration and it would be interesting to see if that is the case with similar acquisitions of the same mode. Moreover, it could be interesting to see if such relations exist within the other acquisition modes as well.

M&A and PAI is well-researched subjects, but the two suggestions presented above haven't got enough attention. If investigation of those subjects provide answers that can be used in future M&A, improved performance and increased value will be achieved and thus reduce the high failure rate that was the origin of this thesis.

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12 Appendix

12.1 Appendix 1: Employee integration survey

The employee integration survey involved 117 people currently employed by "The Company". The criteria for joining the survey was that they had to be employed by "Target Company" at least 1,5 years prior to the acquisition and at least 1,5 years after the acquisition.

Employee integration survey

First part

In the first part of the survey I will try to identify the early actions or lack of actions of the employee integration. The first seven questions relates to the first stage of integration, which often spans over the first 100 days or 3 months. The questions try to relate to important aspects of the theory, which is the root of this thesis.

- Are you familiar with "The Company's" acquisition of "Target Company"?

Answer: Yes or No

This question will help me sort out the people that had no interest in the integration process, and therefore are not relevant for the survey.

- When people ask where you work, what do you say?

Answer: "The Company" or "Target Company"

This question is interesting in the way that it gives a good indication on how integrated the employees feel with only one question.

- What is your position/role in "The Company"?

Answer: 1: Finance

2: Engineer

3: Project Coordinator

4: Workshop

5: etc….

*By knowing the position/function in the company, further answers can be categorized
according to that.*

- In the period after "The Company" acquired "Target Company", did fear that you
  would loose your job?

Answer: 1: Yes

                2: A little

                3: No

*This question indicates how well "The Company" performed in reducing fear and creating
a positive atmosphere among the employees, an important activity in the first stage of the
integration.*

- Was it any problems (delays, deviations in amount) with payments of your salary
  the first three months after the acquisition?

Answer: 1: Yes

                2: Some problems

                3: No

*An important action within the first stage of the integration is to transform HR activities
and salary payment to the acquirer's systems and accounts and that may result in some
problems with payments. This must be sorted as quickly as possible to keep employees
positive to their new employer.*

- Did you salary change within the first three months after "The Company"
  acquired "Target Company"?

Answer: 1: Decreased

                2: No

                3: Increased

*This question indicates if "The Company" took actions to reduce personnel costs (reduced
salary) or took actions to keep key personnel (increased salary).*

- Did your role/position change within the first three months after "The Company"
  acquired "Target Company"?

Answer: 1: Yes, I was promoted.

2: No

3:Yes, I was degraded to lower ranked position.

This question indicates if "The Company" took any actions to restructure the organization immediately.

- How did the acquisition affect your motivation to do a good job?

Answer: 1: Increased motivation

          2: No change

          3: Decreased motivation

This question indicates if the actions "The Company" took in the first stage of the integration did create a positive atmosphere that not reduced the motivation among the employees.

Second part

The second part of the survey focuses on the second stage of the integration process. This is the part where the focus is on integrating processes, systems and culture. The difficulties with this part is that since so many positions are represented, various systems processes are used and therefore the questions in this survey has to as general as possible.

- How well did "The Company" communicate their culture?

Answer: 1: No communication of culture

          2: Some communication of culture

          3: Culture was communicated well

This question indicates if "The Company" took actions to communicate their culture, which is an important action to successfully integrate the employees

- What channels where used to communicate culture?

Answers: 1: None

          2: Internet (emails, online training etc.)

          3: Seminars and courses

          4: Other

This question indicates how "The Company" did communicate their culture. It can be interesting to see if they approached this on a human-to-human level or on a less direct approach.

- Were there any changes in the IT systems after "The Company" acquired "Target Company"? Choose all relevant options:

Answers: 1: SAP

               2: eBIZ

               3: IM Toolkit

               4: Other

This question indicates if actions were taken to change the IT systems to align them to "The Company's" IT systems. It also helps me identify where changes were made, which will help me on what to focus on in the interview with the person responsible for systems and process changes.

- When was the IT systems changed?

Answers: 1: Approx. 1-3 months after the acquisition

               2: Approx. 3-6 months after the acquisition

               3: Approx. 6-12 months after the acquisition

               4: More than a year after the acquisition

This question indicates when actions were taken by "The Company" to integrate the IT systems. It may be interesting to compare their time to implementation to theory about speed of integration.

- Did "The Company" provide any training to handle the IT system changes?

Answer: 1: No training

               2: Some training

               3: Sufficient training was performed

This question indicates whether "The Company" provided any training to handle system changes, which is considered important in order to not loose any productivity and make it as simple as possible for the employees in times of change.

- Did any customers, suppliers or vendors react negatively on the changes of systems and processes?

Answer: 1: Yes, negatively

2: No reaction

3: Yes, positively

This question will indicate whether the changes in systems and processes had any impact on the relationship with customers, suppliers and vendors. If it is, I will focus on how these changes were communicated to them in the interviews at a later stage.

- To what degree do you think the acquisition was a success, where 1 is not successful and 5 is successful?

Answer: 1   2   3   4   5

The last question will provide the overall employee perception of how successful they see the acquisition.

12.2 Appendix 2: Interview guide

Interviewee introduction

Role:

Tenure:

Q1:   What do you believe "The Company" tried to obtain with the acquisition? What were their strategies and desired synergies? Do you consider "The Company" & "Target Company" similar companies pre acquisition?

Q3:   How did the employees react to the acquisition?

Q4:   Can you tell me about the first period (approx. 3 months) after the acquisition? What changes were made? What was communicated from the integration team?

Q5:   How was the acquisition communicated to the customers and suppliers and how did they react? Did "The Company" have any different requirements for acceptance of suppliers? Did any of the customers have any objections to the changes?

Q6:   What type of changes (and when) was done? Was there any integration tasks given to Stavanger personnel?

Q7:   Regarding the changes initiatives, did it affect delivery time and/or price of products/services?

Q8:   Do you consider the acquisition a success? What parts were successful and what could have been done better?