CRITICAL SUCCESS FACTORS IN POST MERGER INTEGRATION WITH EMPHASIS ON MANAGING THE PROCESS

by

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BESTUURSOPSOMMING

Die huidige bloeifase in samesmeltings en oornames fokus aandag op die realtief swak prestasie van nuut-geskepte ondernemings. Daar is 'n merkbare tekort aan inligting en bestuurstegnieke om bestuur te ondersteun na voltooiing van die samesmeltingstransaksie. Die doelwit van die studie is om die kritiese suksesfaktore in die integrasieproses te identifiseer en te analiseer. Bestuurstegnieke vir die doeltreffence bestuur van die faktore word ook identifiseer en bespreek.

Sonder behoorlike beplanning is die bereiking van sinergievoordele nie moontlik nie. Dit vereis besondere hoë vaardigheid van die bestuur van die nuut-geskepde onderneming. Dit is noodsaaklik dat die vaardighede kommunikasievermoë insluit. 'n Besonder belangrike aspek is dié van kultuur botsing. Dit kan vererger word deur 'n wanbalans in die relatiewe grootte van die samesmeltingvennote asook verskille in die onderskeie personeelevaluasie-stelsels.

Die beginsels van strategiese beplanning, wat die aanstelling van 'n samesmeltings-koördineerder, die identifisering van doelwitte en voordele, die vasstelling van samesmeltingsreëls en 'n risiko-analise insluit, is nuttige bestuurstegnieke vir die bestuur van die samemeltingsproses. Die uitvoering van 'n betaamlikheidsondersoek (due diligence investigation), wat meer as net finansiële aspekte insluit, is 'n vereiste vir behoorlike samesmeltingsintegrasie. 'n Verlenging van die ondersoek tot na die oorname sluit die implementering van 'n formele moniteringsprogram in.

Die volg van 'n gedetaileerde metodologie tydens analise van die samesmeltingsvennoot, veral die analise van die menslikehulpbron funksie, speel ook 'n rol in suksesvolle integrasie. Voor en tydens die samesmelting moet 'n gedetaileerde kommunikasieplan geïmplementeer word. Die plan behoort deel te vorm van 'n omvattende plan om verandering te bestuur. Daar is ook tegnieke wat gebruik kan word vir die bestuur van spesifieke funksionele areas. So moet die behoud van personeel en die vermindering van personeel bestuur word as deel van die menslike hulpbronfunksie asook ander funksies soos inligtingstelsels, fisiese fasiliteite en distribusie.

Insette van die sakewêreld bevestig bogenoemde meerendeels. Kommentaar op spesifieke areas is ook gelewer

Die bestuur van die integrasieproses kan dus op hierdie manier vergemaklik word om sodoende suksesvolle samesmeltings te fasiliteer.

1. INTRODUCTION

1.1 GENERAL BACKGROUND

Since the dawn of the industrial age, take-overs and mergers have come in waves, and those waves have usually rolled when stockmarkets were buoyant. America's first merger mania came at the turn of the century. Since then, the tide has ebbed and flowed (Anon., September 28, 1991:79). Behrmann (1995) expects that at present, a merger craze in Britain is to bubble over to Asian markets. He states that in the first 11 months of 1995, British mergers and acquisitions have amounted to a record £66 billion, well in excess of the previous peak of £45 billion seen in 1989. He quotes the editor of Acquisition Monthly as stating that the boom is likely to continue well into 1996.

According to Farell (1995:18-20), United States merger volume is showing a similar trend. He also quotes the Securities Data Co. which stated that US merger volume in 1995's first quarter totalled $73.2 billion, up 36% from the year before -- the highest first-quarter figure since 1989. Samuelson (1994: 51) goes one step further, stating that the merger boom is a permanent part of the bureaucratic capitalism.

At first glance many such mergers look eminently healthy, not only for the firms involved but also for the economy as a whole. They are portrayed as intelligent adaptations to a changing business environment, caused variously by shrinking markets (defence), government reforms (drug and healthcare) or technological change (media and telecommunications) (Anon., September 10, 1994: 12-13).

The snag is that mergers can almost always be made to look that way at the time. Troubles come later. And many studies of mergers stretching back to the last century have shown that, despite some successes, the overall record is decidedly unimpressive. On average, mergers do not result in higher profits or greater efficiency; indeed, they often damage these things. And although they prompt a rise in the combined stock market value of the merging firms, this gain is often short-lived. (Ibid.)

Many companies are watching the latest surge in merger and acquisition activity from the sidelines, reluctant to enter the rush again. According to Smith and Quella (1995: 25), managers, lenders, and board members still are stinging form their own failures and those of others in the late 1980's - deals they won but which failed to deliver promised returns to shareholders. They refer to recent research by Mercer Management Consulting on growth strategies which found that executives now favour organic growth strategies by a factor of 2 to I.

Their caution is understandable and, in general, well advised. Acquisition failure is not just a phenomenon of the early 1990's recession. Studies by Copeland have shown that, measured by the present value of future cash flows, the great majority of acquisitions destroyed value for the buyer. (Ibid.)

Nevertheless, amid myriad changes - free trade to health care reform, from globalisation to the technological revolutions affecting virtually every industry - farsighted executives know that staying on the sidelines can destroy just as much value in missed opportunity as they might put at risk in merger activity. Many businesses in fact need to grow and restructure just to maintain competitive position (Ibid.).

The reasons put forward to justify the vast majority of mergers can be interpreted as attempts to obtain increased economies of scale or synergy. A large amount of research has been undertaken in the attempt to prove or disprove the existence of economies of scale. Economies should mean that the larger the organisation, the lower the unit costs and the greater the proportional returns.

There is, however, no automatic reason why economies of scale or synergy should emerge when two companies are brought together. Studies by McKinsey and Co. show that over a ten-year period, only 23% of mergers end up recovering the costs incurred in the deal, much less scale shimmering synergistic heights of glory (Fisher, 1994:50). There may be possible advantages from large-scale operation, but this does not mean that all large organisations can achieve them.

The opportunities for synergy may be there, but the success of the merger depends upon the management's ability to take advantage of these opportunities to realise the potential economies. Kitching (1972: 47-62) found that the key factors determining success were the quality of both planning and management. According to him it seems that all research into post-merger performance emphasises the same fact, that success depends on planning and management.

Samuels (1972: 5-11) states that profits are not produced by machinery, buildings or products. It is people that give life to these otherwise dormant assets. The key to the success of a merger turns out to be the people involved, the amount of thought and planning that has gone into the merger, and the ability of the people involved.

This sentiment is echoed in the Economist which states that much depends on the quality of management. And organising an acquisition can make top managers spread their time too thinly, neglecting their core business and so bringing doom. Too often, however, potential difficulties such as these seem trivial to managers caught up in the thrill of the chase, flush with cash, and eager to grow more powerful. (Anon., September 10, 1994: 12).

Many books have been written and various merchant banks, brokers and other consultants offer advice on hostile take-over and defence strategies, tax benefits, negotiation tactics, valuations, financial engineering and other related topics. Most of this advice, however, focuses on the nature and structure of the deal as this is where hefty commissions are earned. Few consultants have ventured into the minefield that is post-merger integration. According to De Noble et al., (1988: 82:85) evidence suggests that despite the warnings of researchers about the necessity of considering integration issues, practising managers generally fail to give adequate attention to the post-merger phase of the overall acquisition process.

According to Prinsloo (1994: 1) the typical merger emphasis is as follows: The negotiation phase resolves the price, pay-out method, legal structure, level of autonomy and jobs for key managers. Chief Executive Officers concerned about ensuring jobs for their top executives tend to concentrate on short-term issues driven by top management's organisational needs and interests, rather than the long-term integration process. Frequently, the agreements are signed before a plan for integrating the two firms is drawn up and without an adequate understanding of the personnel issues that must be addressed.

In his view executives focus too much attention on the financial issues and far too little on the important people and integration issues that mergers present.

1.2 PROBLEM STATEMENT

After the merger, it is up to functional managers to deliver the benefits of synergy and economies of scale promised by external consultants and top management. These managers are however faced with a new set of problems, for which they are not equipped. It is in this critical phase that line managers feel that little support is received from top management and external consultants. The consequence of this is the relative lack of success achieved in mergers as discussed in the previous section.

Additional support for this point of view is available in a study done by Ravenscraft and Scherer (1989: 101-116). They found that profitability of target firms, on average, actually declines after an acquisition, suggesting that implementation difficulties probably play a critical role in determining the eventual performance of an acquisition. The ultimate responsibility is still vested in top management. It is their responsibility to manage the post-merger integration process.

Considering the high incidence of merger integration failure, there is a need for an analysis of the situation. From a review of the literature it also obvious that very little focus has been placed on the integration phase of the merger.

Even less is known about the management techniques available to manage this process more effectively. Despite the importance of this process and shortage of skill in this area, little is known about the tools and techniques available for use in the process of managing integration. According to Datta (1991: 281-297), research on related issues such as organisational fit is limited, fragmented and anecdotal. Until management techniques and guidelines for managing the crucial merger integration phase are formalised, this problem will remain.

1.3 OBJECTIVES

The objective of the research is to identify the critical success factors in the integration of previously separate business units. These factors will then analysed and an attempt made to establish and explain management tools and guidelines available to manage these factors. According to Polley (1990: 47-51) the integration problem can be minimised by using sound management techniques.

These management tools and guidelines will cover the whole merger process, including pre-merger activities, strategic planning and due diligence. This is necessary as the post-merger integration can not be viewed in isolation, but as part of the larger merger process.

Superior integration skills not only create greater value in the deals that are consummated but they equip the dealmakers that possess these skills with the facts and insights that make them better negotiators. (Smith and Quella, 1995: 25-30)

1.4 RESEARCH METHODOLOGY

Based on a review of the literature, the critical success factors in mergers and acquisitions in general will established. These factors will be analysed and the factors critical to integration will be identified and analysed.

A further study of the literature will be made to establish how management tools and techniques can be utilised to ensure successful post-merger integration. An attempt will be made to identify tools and techniques to specifically manage the identified critical success factors. Literature relating to mergers as well as literature relating to general management techniques will be analysed.

The results of the above-mentioned research will be made available to business persons with practical experience of post-merger integration. Experts in specific fields, though not necessarily in mergers and acquisitions, will also be consulted. The comments received from these individuals will then be summarised and analysed. Based on these comments and the literature review performed, the most applicable management guidelines and tools will be identified.

1.5 THE LIMITATIONS AND KEY ASSUMPTIONS

1. The study is limited to mergers where two or more business operations are combined. It does not include mergers where only the legal entities combined without the merging of actual business operations. The only acquisitions included are those where the acquired business forms a material part of the new combined business.

2. It is outside the boundaries of this study to establish criteria for measuring integration success. The broad principle that the financial success of a new integrated entity equates success of the integration process will be accepted.

3. It is also outside the boundaries of this study to establish the effectiveness of the management techniques and guidelines outlined if used in specific scenarios. Generic strategies and management techniques will be discussed and outlined.

1.6 CHAPTER OUTLINE

What follows is a chapter-by-chapter outline of the proposed research:

Chapter 2: Literature review of critical success factors in merger integration

The performance of a literature review will reveal the established facts in the field of study, and will establish the current theories concerning merger success or failure that have been formulated by previous researchers. Broadly, the following areas will be covered in the literature review:

- Reasons for the success or failure of merger integration.
- An analysis of these factors.

Chapter 3: Literature review of generic management techniques

Based on the results of the review of the literature, management guidelines and techniques for the management of the critical success factors will be established and analysed. The literature review will not be confined to established techniques used in merger integration. An attempt will also be made to apply techniques normally associated with other areas of business to the integration process.

Chapter 4: Issues unique to specific functional areas

This chapter will analyse the issues relevant to specific functional areas such as general management, human resources management, information systems management and facilities management. Management techniques specific to individual functional areas will also be discussed.

Chapter 5: Input from the business world

The overall comment from business persons with practical experience of merger integration will be summarised and analysed in this chapter. This will include comment of what the critical success factors are, and on how to manage these factors in a practical business situation.

Chapter 6: Conclusion and opportunities for further research

Conclusions as to differences between the results of the literature study and the comment of business persons will be made. A conclusion will be made as to what the most important critical success factors and management techniques are in the merger integration process.

Opportunities for further research will also be identified.

2. IDENTIFY AND ANALYSE CRITICAL SUCCESS FACTORS

2.1 INTRODUCTION

Although the importance of merger and acquisition activity is widely accepted, little is known about what the factors are which determine the financial success of these business deals. In a well-publicised article in *The Wall Street Journal* of October 15, 1981, Peter Drucker sets forth five rules of successful acquisition:

- Acquirer must contribute something to acquired company.
- Acquirer and target must share a common core of unity.
- Acquirer must respect the business of the acquired company.
- Within a year or so, the acquiring company must be able to provide top management to the acquired company.
- Within the first years of merger, management in both companies should receive promotions.

Other writers have different opinions of what the critical success factors are. According to Stallworthy and Kharbanda (1988: 81) successful mergers seem to have some common factors:

- The companies concerned are in closely related fields.
- The deal is financed by stock swap or cash rather than by borrowing.
- There is no undue premium in the purchase price.
- Management of the acquired company usually stays on.

They also list several actions not to be taken by the management of the acquiring company, including:

- Do not pay too much cash.
- Do not assume a boom market will continue.
- Do not stray too far afield.
- Do not swallow something that is too big.
- Do not marry different or contrary corporate cultures.
- Do not count on the key managers of the acquired company staying on.

.The above-mentioned success factors apply to the whole merger and acquisitions field of study. There is still a need to analyse the success factors that relate specifically to the post-merger integration process. Every business has unique critical success factors, depending on the external and internal situation of the individual business. An attempt was however made to identify and analyse critical success factors that apply specifically to the post-merger integration phase but which are generic to various types of businesses.

Following is a discussion of some of the above-mentioned and other factors that are critical to the management of the integration of the merger partners. An attempt was made to categorise these factors into generic areas of management.

2.2 PLANNING

According to Kitching (1972: 47-62) companies that merely react to opportunities to purchase are less successful in their acquisitions than those with an overall strategy which includes an acquisition program. The more successful companies will often actively solicit the sale of the companies which they wish to purchase. Successful companies formulate a set of acquisition criteria that are consistent with overall strategy, and then rigorously apply them.

This is hard to do in the atmosphere of secrecy and emotion that surrounds negotiation, but experienced acquirers have nonetheless evolved valuable techniques for cool appraisal. Even in the case of successful acquisitions, parent companies tend to underestimate their subsidiaries' future requirements for additional funds; often, too, the demands on the parent's management time are underestimated. The result is that the return on investment is less than expected (Ibid.).

Haworth (1994:32-38) states that any company considering a merger or acquisition ought to ask itself whether it furthers its overall strategic plan. Of course, a merger and acquisition can support a wide variety of business strategies, from advancing technological skills to coping with regulatory change. But if it is not consistent with the company's strategy, the opportunity should not be utilised. Gauging whether a potential merger or acquisition works with your company's strategy is just the first step. It is also necessary to establish whether other alternatives are not more suitable.

At Haworth Inc., a major manufacturer of office furniture headquartered in Holland, Michigan, mergers and acquisitions are viewed as a way to expand into new markets, build product lines, and gain distribution networks and manufacturing plants. This is compatible with the company's mission: "To be able to meet our customers' requirements, no matter where they are". Many of their customer are multi-national firms that are furnishing facilities in literally every country of the world. (Ibid.).

Based on the above comments, it is therefore evident that the post-merger integration process cannot be attempted unless its part in the company's overall strategic plan is clearly defined. This will necessitate the development of a merger strategy, and specifically a merger integration strategy, as subset of the larger strategic plan. The planning of the post-merger integration phase, and in particular its consistency with the overall strategic plan, is therefore considered a critical success factor in the integration process.

2.3 SYNERGY

Everyone knows about synergy. Putting two and two together to make five sounds like a "good twenty per cent return" to the businessperson. (Kitching, 1972: 43). According to him, most managers would consider the potential synergy highest in the case of production mergers. This is because of the economies of scale that can be achieved as a consequence of longer runs, the increased purchasing power made possible (quantity discounts) the justification of more expensive, more efficient machinery and opportunity to close down inefficient machinery, and the opportunity to close down inefficient lines and transfer production to other factories.

Technology would appear to be the next most profitable area for mergers because of the possibilities of sharing research and development knowledge and of transferring technical processes. Mergers of marketing organisations, where there are opportunities to sell two complementary product lines though one distribution channel and with one sales force, would seem to have the third greatest synergistic potential. And mergers in the organisation area might rank fourth, since they provide opportunities for eliminating duplicated functions and releasing human creativity through improved motivation (Ibid.).

Additional capital may enable high-risk, high-payoff projects to get off the ground; and, with two sets of assets as collateral, borrowing power goes up and the cost of money goes down. But there was a general impression that the synergistic potential of financial mergers is not as high as that of other types just mentioned (Ibid.).

However, the research findings show that practice just about reverses hypothesis. Far from producing the biggest payoff, production and technology are at the bottom of the list of functional areas that create synergy benefits. Marketing shows up better, and finance is clearly the area where synergy has the biggest payoff (Ibid.).

In financial mergers, synergy is achieved with greater ease than in any other type of merger. This is understandable when we consider that additional funds are much easier to obtain when the asset backing of the merged companies is larger. And the cost of capital -- due to lower interest rates and longer repayment times -- can be lowered. Frequently, too, the parent company has surplus capital that can be used to finance the subsidiary's backlog of projects previously denied funds (Ibid.).

Marketing seems to have the next biggest monetary payoff. This again is related to the ease of achievement. It is not difficult to train a sales force to sell another product line, or get the distribution channels to handle the acquired company's products. Advertising economies can still be found. And it is relatively easy to save money in physical distribution, too, when one is able to take advantage of lower unit costs or to eliminate duplicate field sales offices. Furthermore, product lines sometimes reinforce each other, where the previously separate product lines are now marketed together as a package deal to appeal to another sector of the leisure market (Ibid.).

Technology and production -- the areas which theoretically should pay off most handsomely -- do not do so in fact. Although the whole point of the technology-based concentric merger is to pool research and development knowledge and to transfer specialised knowledge, the actual monetary benefit of so doing is rated below that of finance and equal to that of marketing (Ibid.).

Motivation and efficiency: There are two ways in which organisation change can release synergy. One way is to centralise control, legal, public relations, and other services at the corporate level. The second way of releasing synergy is to change the management environment so that previously conservative or frustrated managers are now motivated to become managers of change and to make more effective and profitable use of resources. (Ibid.).

From the above discussion it is clear that the synergy benefits expected from specific areas are often not realised in the post-merger integration process. The reason for mergers found by the author to be cited the most often in the literature was the realisation of synergy benefits. It is therefore only logical to expect that the realisation of the synergy benefits would be included in a list of critical success factors. Other critical success factors will also impact the realisation of the potential synergy benefit.

2.4 MANAGERIAL COMPETENCE

Once the merger has been completed, it is important that the new company continue to achieve current corporate plans and objectives. According to Polley (1990: 47-51) during the integration period, management can often become preoccupied with the problems resulting from a poorly planned integration process. He continues to state that this merger myopia is further compounded by a failure to secure the optimal management resources.

Kitching (1972: 44) states that failure occurs in a pattern that might be categorised as follows: the sum of managerial competence in the parent company plus that of the acquired company fails to equal or exceed the demands of the management tasks found in the newly merged organisation. According to Kitching, this, combined with the normal loss of personnel due to the uncertainty after the merger, could result in a serious lack of management resources. In fact, one study has found that almost 60 percent of the top managers of acquired companies leave within five years of the acquisition. (Corwin, et al., :48).

The lack of competent management in the post-merger integration process can therefore be identified as a critical success factor. Obviously this critical success factor also impacts on all the other critical success factors. Part of the answer to this problem will be found it the discussion of human resource management.

2.5 COMMUNICATION

The nature of the reporting relationships set up between parent and acquired companies, along with the organisational responsibilities and control systems established, is a dominant influence on the success or failure of the merger (Kitching, 1972: 44). This is echoed by Oshry (1995: 14), who believes that mergers fail when reporting relationships in management set up after the acquisition fail.

According to Rouse (1987: 292), communication with other parties is also often neglected. Even when pre-merger negotiations involve several echelons of management, communication with a broad spectrum of interested parties, such as employees, labour unions, customers, vendors, the industry itself, and the financial community, often is restricted until after the deal is consummated. By that time, however, the realities of managing the new organisation take precedence. Decisions now have to be made ad hoc. Important individuals and groups, whose support could have strengthened the new entity from the outset, may now greet the merger with a wait-and-see attitude, if not outright hostility.

Communication in all the phases of the merger, including communications in the negotiations phase of the merger, will have an effect on the success of the integration process. The author has personal experience of a take-over during which employees had no assurance or communication with regard to job security during the whole merger process. This had lead to tension amongst the employees with a subsequent negative effect on morale.

Communication in general is identified as a critical success factor in the post-merger integration process. In the following chapter an attempt will therefore be made to identify techniques to manage communication in general, rather than focusing on techniques to manage the reporting relationship and communication between the merged operations.

2.6 SIZE MISMATCH

Kitching (1972: 50) states that size mismatch can be overcome with the use of the right organisational structure and reporting relationships, but frequently the wrong actions seem to be taken. In 81% of the failures, the organisation structure had been changed -- usually in the direction of greater consolidation -- or else the chief executive's reporting relationship had been altered. The danger is that such action will create confusion at the subsidiary level and a lack of knowledge at the parent company level -- two factors which help to explain the failures of these acquisitions.

Moreover, such changes are usually symptomatic of a lack of adequate planning at an earlier stage. What usually happens is that when failure appears imminent, reorganisation efforts are made to get the mixture right. But it was poor planning, and poor appraisal of executive talent, which caused the mixture of the two organisations to go wrong in the first place (Ibid.).

According to Oshry (1995: 14), mergers fail when there is a mismatch in their size, and corporate headquarters does not take enough interest in the acquisition.

The complexity of the integration process is therefore partly dependent on the compatibility of the sizes of the merger partners as it affects the organisational structure of the newly merged organisation. In the experience of the author, size mismatch can also have an effect on the morale of the company being taken over. If a relatively small organisation is taken over by a larger organisation, fear that the larger organisation will dictate to the smaller organisation can lead to resentment among employees.

The match and compatibility between the sizes of merger partners is considered a critical success factor in the post-merger integration process.

2.7 CULTURE MISMATCH

The cultures of organisations involved in mergers or acquisitions can significantly influence the outcomes of transactions. Often, one of the major tasks facing the management of newly acquired companies is coping with the dysfunction caused by culture clash or mismatch. Inappropriately matched cultures can cause merger or acquisition failure. (Brews, 1987:10-20). This is echoed by Oshry (1995: 14), who states that mergers fail because the cultures of the merged companies are so diverse that there is no meeting of minds. It is important to note that even complementary firms can have different cultures, which makes melding them tricky. (Anon., September 10, 1994: 12).

Culture misfit has been the undoing of more than a few mergers, especially in the professional services sectors (Smith and Quella, 1995:25-30). Studies also show that as many as 75% of hospital mergers are unsuccessful when issues surrounding corporate culture are ignored (Sherer, 1994: 20-27). How acculturation is achieved can effect the level of acculturative stress, and ultimately facilitate or hinder the implementation process. (Nahavandi and Malekzadeh, 1988:79-90).

Corporate culture is an implicit phenomenon rather than a formal written one. Further, it is probably the most intangible element in the merger process, difficult (though not impossible) to identify and measure, and a concept employees come to understand only after working in an organisation for some time. Corporate culture should neither be ignored nor separated from the design of the new organisation or the characteristics and strengths of its new leaders (Ibid.).

Corporate culture must be set and driven from the top down. Executives interested in successfully merging corporate cultures should take upon themselves the responsibility for empowering employees. Employees should be equipped with tools to help them deal productively with the concept of constant change, to develop new relationships, and engender the support of new managers (Ibid.).

On the other hand, managers learn from their leaders how to best collaborate with one another, to define operating approaches for newly merged departments or functions, to motivate survivors of a downsized area, and to align teams (Ibid.).

The compatibility of the repective cultures of the merger partners is considered a critical success factor in the post-merger integration process.

2.8 DIFFERENCES IN EVALUATION SYSTEMS

The reward and evaluation system is widely regarded as one of the most important components of the organisational form (Napier and Smith, 1987: 195-201). It affects employees in a direct way and managers can expect severe resistance to change. This resistance could include resistance from organised labour.

The importance of the evaluation system is stressed by one of Drucker's rules of successful integration. (Weston, 1987: 43). Drucker considers it important to merger success that management of both entities receive promotions within the first year. The evaluation system will play an important role in the determination of who receives promotion.

While trying not to set off too many stress signals (Corwin, 1991:48), management has to determine who has the necessary skills and motivation to help take the new organisation forward.

The evaluation system is also closely linked to the organisational culture. The culture often plays an important role in determining criteria by which to evaluate employees. The evaluation system is also closely linked to the problem of retaining top quality management. All these factors play a part in successful post-merger integration management.

2.9 Result of critical success factor review

For the manager, the pertinent question is: What are the major problems that have to be solved during the merger integration process to ensure a successful merger? Based on the preceding literature review, the answer to this question can be summarised as follows:

- Has the integration process been planned carefully and is this process integrated in the overall organisational strategic plan?
- How can the respective corporate cultures be managed and integrated?
- What steps should management take to realise the synergy potential of the merger?
- How can communication be managed as an advantage rather than a disadvantage in the integration process? This includes dealing with the challenge of communication between newly merged entities with different cultures and of disproportionate size.
- Ensuring that the right quality management is available to deal with the above-mentioned challenges. This includes the management of the evaluation system of the new entity.

Management will have to assess which management techniques are available to resolve the above-mentioned questions satisfactorily.

3. THE MANAGING OF POST-MERGER INTEGRATION SUCCESS

The critical sucess factors in the post-merger integration process were identified in the previous chapter. The next part of the answer to the question posed in the problem statement is the identification and analysis of management techniques available to manage these critical success factors.

Listed below are the generic management techniques which were identified from the literature to manage the critical success factors in the post-merger integration process:

3.1 Integration planning
3.2 Due diligence investigation
3.3 Tracking the impact of mergers and acquisitions
3.4 Detailed merger methodology
3.5 Communication
3.6 Change management

Following is an analysis and discussion of these techniques as they apply to the management of the post-merger integration process.

3.1 INTEGRATION PLANNING

According to Lorange et al. (1987: 11), preliminary post-acquisition integration plans should be formulated even before negotiations take place. For example, if the target is very entrepreneurial and the acquirer is a large, structured company, it might be wise to state at the initial contact that the acquirer's intent is to have a hands-off policy after the merger if it wants to preserve the target's entrepreneurial flair. More important, however, the acquirer should anticipate some of the potential problems that may occur, particularly if relocation may be involved or if overlapping functions exist between merger partners. Integration plans should take into account personnel conflicts that may result from duplicate functions.

According to Oshry (1995: 14), the managers who will be responsible for the growth of the acquisition should be identified and brought into the picture during the planning phase of the merger process.

According to Batts (1985:11-17), CEO of the merged entity Dart & Kraft, the planning process could also help to identify the common needs and common beliefs that were already shared in each unit of the company - needs and beliefs that could bind the entities together despite their diversity.

Although a single generic strategy cannot be applied to all acquisitions, certain general tasks can be prescribed (Lorange et al. 1987: 11-12):

- Establishing which manager in the target company will be directly responsible for the target company or any of its activities after the acquisition.
- Planning for possible incentive compensation programs to motivate and assure retention of key managers of the target company.
- Developing probable reporting relationships and the degree of autonomy to be given the acquisition candidate.
- Analysing which functions will probably be integrated and which will remain separate from the acquiring firm.
- Preparing for potential personnel conflicts, and identifying areas where such conflicts occur. This will permit swift action in cases of irreconcilable differences and conflicts.
- Identifying cultural dissimilarities, deciding whether the functions that are not integrated can or should retain their own cultures, and determining how cultural assimilation that is necessary can take place over time.

The following are also relevant merger integration planning steps as suggested by Arthur Andersen & Co (1988:4):

3.1.1 Select a merger co-ordinator

Experience indicates that a high-level manager with broad contacts with the senior level executives of the organisations involved and with high visibility, will be a successful merger co-ordinator. Involvement in the pre-merger activities (planning and negotiation) will be beneficial in successfully performing the duties of this position (Ibid.). This is echoed by Oshry (1995: 14).

Lorange et al. (1987: 11) suggests the establishment of transition teams before the merger takes place, inviting management to social functions before and after the merger, and conducting attitude surveys on a confidential basis soon after the transaction is completed. He continues to state that in cases of conflict, the acquirer should act swiftly even if the action is greeted unfavourably by some of the target company's management. Swift action may cause short-term losses, but is better than a lingering conflict that will severely affect future performance of the company. The worst decision is to leave a conflict unresolved; this will lead to demoralised employees, lower productivity, and ultimately to lower stock values if news of such problems reaches the public.

According to Polley (1990:50) this transitional organisational structure will also effectively permit co-mingling of the staffs of the merging companies by creating teams of individuals with similar responsibility. The process also begins to build trust and confidence between the organisations and helps to prevent the "culture shock" that can occur if individuals are separated until after the merger is completely consummated.

The team approach also provides flexibility, allowing for the combining of teams into task forces that may be needed to address broader-based issues cutting across the organisational structure. (Ibid.).

3.1.2 Identify overall corporate goals/objectives

Objectives are time-oriented, measurable, and quantifiable. A company's goals and objectives will be used as benchmarks to gauge the success of the merger implementation process (Arthur Andersen, 1990).

According to Needham (1987:285) it is important to state explicitly just what the acquisition is expected to provide, and what the buyer is expected to supply or is capable of supplying to the seller's business. If the buyer is selling an entity with all the intangible assets that make a business attractive, those elements must be identified and ranked in some order of priority. Merger candidates then can be screened not just on financial considerations and other quantifiable criteria, but on those substantial intangibles of business that indeed provide a competitive edge. Accordingly, a well-thought-out listing of needs that an acquisition candidate should supply, including those intangibles that make a business, is the first step on a hazardous journey toward a successful acquisition.

De Noble (1988: 83) has noted that if the planners of a strategy are not implementers, there is a risk of developing unfeasible or inappropriate plans. The danger is particularly extreme in the case of mergers. During the post-merger integration process, consultation of line managers can prevent the imposition of inappropriate management systems onto the acquired firm.

3.1.3 Identify the rules of the merger

There are a number of principles and ground rules that should guide the integration and which should be clearly communicated to all individuals associated with the consolidation. These ground rules require management to make decisions regarding asset deployment, compensation, physical locations, agency network, etc., early in the process to avoid confusion and facilitate the merger. For example, one ground rule may be that no new levels of management are created to accommodate the organisation structure of the acquired company or to create a job for "good people". Another assumption may stipulate that data processing systems and application of one of the companies be used unilaterally. Features noted in the systems not being used can be implemented at a later time. (Arthur Andersen, 1990)

3.1.4 Identify benefits to be achieved from the merger

The identification and documentation of these benefits serve as a starting point for developing success criteria for the merger. The integration's success will depend on whether or not the merger provides these benefits.

In addition to identifying benefits, potential detractors to the deal should be identified. According to Gilbert (1989: 17), it is better to avoid buying the entire company. Most mature companies - whatever their size - have a significant amount of obsolete equipment, real estate, dead inventory and other bits and pieces that the acquirer do not need nor want. He suggests that if possible, an attempt should be made to get the seller to retain these items or at least to take a price based on their current market value, not replacement value.

3.1.5 Perform risk assessment

A risk assessment identifies the potential uncertainty associated with the merger process. These factors can have a major negative impact on the integration process, potentially preventing the merger from realising its benefit. Some of these factors are beyond the control of the acquiring company and can only be identified and tolerated. Others include risk in the following categories: legal, financial, competitive and cultural. (Ibid.).

In general terms, all generic strategic planning techniques such as vision and mission formulation, SWOT analysis and external environment analysis and goal management can be utilised in the integration process. As mentioned earlier, the development of a strategic plan of which the acquisition and integration plans form a subset is also advisable.

3.2 DUE DILIGENCE INVESTIGATION

Arthur Andersen & Co (1991:1) believes that due diligence is a key element of the acquisition process and it can make the difference between success and failure. They define due diligence as a detailed accounting investigation, often in itself thought of as due diligence, an important part of an approach to making successful negotiated acquisitions.

But the principle of due diligence covers the acquisition process from start to finish and entails an in-depth analysis of the target business. This analysis of the target ensures that the acquisitor has a detailed understanding of the business before the deal is finalised. The due diligence investigation can also play an important role by influencing the post-integration management process. (Ibid.).

Once a firm has determined its acquisition strategy and profile, the screening and evaluation of potential candidates can commence. Screening is the process of identifying the universe of potential candidates, and narrowing the universe down to candidates warranting in-depth evaluation (Ibid.).

Evaluation involves the careful investigation of the candidate concerned from a variety of perspectives including assessing the products and market position of the candidate; assessing selling and distribution policies; evaluating the management and labour practices of the candidate under investigation; understanding the competitive position of the candidate in its chosen market place; assessing its competitive advantage and the sustainability of its competitive position; evaluating the appropriateness of control and administration procedures, evaluating in depth the future prospects of the company, based on future market and industry trends and finally evaluating the reasons for divesting. (Brews, 1993:1-10).

3.2.1 Importance of a due diligence investigation

Research conducted by Brews indicated that certain acquisitors considered the process of evaluation as unimportant, since good post acquisition management renders evaluation unnecessary. Such an approach is dangerous for many reasons: for a start, the fundamental premise that good post-merger management can render evaluation superfluous is an assumption, and a dangerous one at that. Sometimes, even competent post-merger management will fail to make a success of an acquisition unsuitable from the beginning. In addition, good, careful evaluation must make the post-merger management process easier in itself. (Ibid.)

Rather than being superfluous, appropriate evaluation probably contributes substantially to post-merger management success. Finally, without evaluation, strategic and organisational fit cannot be tested at all and is left to chance; how any post-merger activity can then turn strategic misfit into fit is difficult to see. In such circumstances, the only appropriate post-merger activity often becomes disposal, usually at considerable cost, in both human and financial terms. (Ibid.).

3.2.2 Investigation of human resources

Utilisation of due diligence tools such as the "Merger Book" used by Novell (see section 3.3) start as soon as the human resources department is informed of the impending merger or acquisition. Before the activity is announced to the employee populations of the two companies, the human resources staff sets up a time line for acquiring information. Despite the amount of information that is gathered, the Merger Book synthesises all the material into a five to six page executive summary. (Anfuso, 1994:51).

As acquiring skilful management is often part of the motivation for the acquisition, it is important for management to know the exact profile of the work force. Information on benefit plans and employee contracts can also have a large financial impact.

The Merger Book also investigates all legal issues pertinent to human resources, and serves as catalyst for Novell's legal department. It serves as checklist for acquiring documentation, such as copies of a candidate company's affirmative action plans. It enables Novell to identify problems while they still belong to the candidate company. In some cases it alerts the Novell to a company's pending lawsuits. Novell, in most of these instances, has the company resolve the lawsuits before finalising or consuming the mergers. (Ibid.).

The evaluation process, properly executed, is aimed at, amongst other objectives, evaluating the strategic and organisational fit between the target company and the acquisitor. (Brews, 1993:2)

3.2.3 Intellectual property rights investigation

Intellectual property rights such as patents, trademarks, copyrights and trade secrets continue to take on increased importance and can be extremely valuable assets in a merger or acquisition. Unfortunately, many companies do not properly maintain these assets, so diluting their value in a merger situation. (Judin, 1995:15).

According to Judin the way to achieve maximum control and utilisation of intellectual rights is by having an intellectual property audit done. Such an audit assesses a company's intellectual property holdings and can establish whether new inventions and developments are protectable and if their use infringes upon the rights of another company. The primary purpose of such and audit is to discover the scope of a company's intellectual rights, to eliminate ambiguities which may cloud the title to these rights and to develop procedures to prevent their loss.

3.2.4 Conclusion

Jemison and Sitkin (1986:145-163) have noted that there is constant pressure on management during the negotiation phase to consummate a deal quickly, thus resulting in significantly less attention being paid to integration issues.

Therefore, it becomes crucial for management to take a proactive view of the acquisition process during pre-merger negotiations, rather than a defensive, reactive approach after a deals has been consummated. It is towards this goal that a due diligence investigation is invaluable.

In conclusion it is important to note that any decisions made with regards to the integration process can only be as good as the information on which these decisions are based. The due diligence process provides this information.

3.3 TRACKING THE IMPACT OF MERGERS AND ACQUISITIONS

According to Marks and Mervis (1992:70) mergers and acquisitions have the potential to affect practically every aspect of an organisation. Morale and productivity often suffer. Work processes and quality control may be thrown out the window. Group and intergroup relationships may be damaged. Even so, relatively few top executives formally assess how the combination is succeeding or solicit systematic feedback from managers and employees.

The purpose of merger tracking is to assess how the combination is progressing. It is important to monitor the impact of change in concrete terms: progress versus integration schedules, rate of turnover and grievances, changes in quality and productivity, and sales and profit margins. (Ibid.).

A formal program to track the combination will determine whether the transition is proceeding according to plan or veering off course. It provides decision makers with feedback about how employees and the business are affected. Marks mentions the following practical examples of advantages that have been obtained by a tracking system:

- Cost savings in an acquisition were compromised by the hiring of ex-employees as consultants. By not monitoring placement activities, management had been unaware of the problem until it hit the profit-and-loss statement.
- Interviews revealed that unclear work charters, timetables and financial targets were preventing task forces from reaching decisions about the design of merging units. When briefed about the problems, the CEO met with each task force to clarify the situation.
- A formal tracking program also can identify hot spots before they flare out of control. The secrecy of pre-acquisition negotiations created an air of distrust between employees and management. An attitude survey, conducted a few months later,

showed morale eroding among production workers. A good flow of upward communication can be ensured by a formal tracking program.

- The management of merging sales forces propagated the benefits of cross-selling each other's products. Salespeople were eager, but had not received updated sales literature and demos. They had no idea what to charge customers and when to make deliveries. Busy with all the paperwork involved in processing employee transfers, setting up office space, and servicing existing orders, sales managers pushed these complaints aside. Once senior marketing management learned of these problems during focus-group interviews, however, their attitudes changed.
- Tracking allows executives to assess the impact of change and make important mid-course corrections. Tracking showed that a gradual integration of the operations of two fiercely competitive firms was preferable.

A tracking program also has tremendous symbolic value: It is a tangible reminder to employees that their leaders care about them and their opinions. Asking people how the merger has affected them, their co-workers and their ability to perform, demonstrates that management is interested in the human side of change. A tracking program can be a cost-efficient way to involve large numbers of people in the combination process. Entire work forces or select samples can participate in surveys and interviews. (Ibid.).

How a combination is managed begins to define the new company culture. A formal tracking system signals the importance of two-way communication and conveys management's genuine interest in people's problems and perspectives. (Ibid.).

The tracking mechanism can also be used to monitor the actual results of the integration process against the planned ones. (Polley: 1990:50)

3.4 DETAILED MERGER METHODOLOGY

Anfuso (1994: 48) analyses a tool known as the "Merger Book", developed by Novell, which serves as road map to all Novell's merger activities. It facilitates and organises management's approach to a merger or acquisition from a human resources and human resources management perspective. The book also explores legal obligations of the company acquired.

In addition it contrasts the company's cultures, including pay practices, management styles and workers' attitudes, and examines the utilisation of personnel of each company to aid human resources or staffing decisions. (Ibid.).

3.4.1 Human Resources

The differences between the acquired companies' policies and Novell's present human resources presented the biggest challenge: blending the two systems to satisfy the employees from both places. With each merger, Novell adds or revises many programs and policies. (Ibid.).

But the differences in culture between two companies impact more than benefits. They can have a tremendous effect on whether or not the companies can successfully blend. Therefore the Merger Book addresses cultural issues to a great degree. The analysis includes management styles, performance evaluations, pay practices, employee-relations issues, types of affirmative-action programs utilisation based on demographics and other items. The different culture of the acquired company often leads to amended practices at Novell. Because of Novell's integration of other cultures, Novell culture is one of diversity. An attempt is made to recognise and play on every organisation's strengths and uniqueness. (Ibid.).

3.5 COMMUNICATIONS

Even in companies having a good communication climate, a merger upsets normal methods of intelligence gathering and two-way information exchange. Excculives are busy with planning and overseeing. Managers are busy, too, and wary of loose talk. People at all levels become more cautious about the people to whom they talk and what they say. Trust has the to develop between employees and the new leaders. Psychological factors also tend to interfere with effective and straightforward communication. (Marks and Mires, 1992:70).

Another important step in managing an integration program is the development of a communications plan. According to Polley (1990:51), it is critical for merging companies to keep management, employecs, shareholders, customers, the investment community and the general public apprised of the status of the merger and, as appropriate, the subsequent integration process. While each of these factions is important, it is probably most critical to have effective employee communication, for the success or failure of the integration process depends on it.

One of the avenues down which Novell's Work Book guides the human resources specialists, is communications. The importance of frequent and honest communication with both Novell employees and workers from the companies being acquired is also understood by Novell. (Anfuso, 1994:52)

As soon as word of an acquisition is received, communication is co-ordinated with Novell's marketing and press-relations functions. This is done in an attempt to ensure that communication goes out to the employees at the same time that it goes to the press. (Ibid.).

The communications begin with a telephone call (followed by e-mail and a hard copy) to senior managers world-wide, who are informed of the activity to take place and briefed on answers to questions their employees might ask. Weekly meetings where workers can meet with the senior-level management and have their concerns addressed are organised. (Ibid.).

To help integrate the new employees into the corporation, Novell people go out to the new offices. Some of these individuals who make the visits are people who joined Novell as a result of a previous acquisition. They relate their personal experiences. When the acquisition is finalised, the two companies come together in a celebration. Communications do not stop with finalisation, however. The company continues to communicate with both the old and the new employees through a merger newsletter. (Ibid.).

3.6 CHANGE MANAGEMENT

According to Needham (1987:289) many post-merger plans fail to recognise the basic problems of organisational changes - that the required changes rarely are perceived as beneficial by those people who are required to change. The absence of incentives to alter employee behaviour may result in a number of adverse outcomes, ranging from a snail-paced integration process to outright sabotage of the integration effort.

This sentiment is echoed by De Bruyn and Kruger (1994:188) who also state that the systems within a business should be amended to reward employees that deliver performances that are in line with the new strategy of the business. In this way employees should be motivated to do everything in their ability do make the chosen strategy work.

According to Kitching (1972:44) the element critical for success is not the potential amount of synergy to be released in combining two companies. Rather, it is the existence or absence of "managers of change" -- individuals who can catalyse the combination process. In the most successful mergers, either the acquiring company brought in new managers of change or motivated the old management to introduce profitable change.

The post-merger plan needs to address the fear of change - regardless of whether actual changes are planned - in each component of the business. The post-merger plan should draw heavily on the information gained during the due diligence phase, and focus especially on the particular attributes that comprise the substance of the business. The key mangers - organisationally, operationally, and politically - need to be identified, addressed as to their futures, and provided with incentives to promote the desired changes. (Needham, 1987: 289).

What makes people change? According to Sherer (1994:24):

- They have a desire to change
- They recognise the inadequacy of their current behaviour
- They have a clear vision of a new and more appropriate behaviour

This is echoed by Katzenbach in an interview with Sherman (1995:81), in which he states that companies have not been very successful in changing the behaviour and skills of large numbers of employees. According to him, a critical mass of change leaders in the middle of the organisation is needed for large-scale transformations.

This critical mass is attained if roughly one third of the middle management are change leaders, depending on the business and the kind of change that is faced. These change leaders have a balance of capabilities: technically skilled and capable in personal relationships. They also find ways to get more out of people than "ordinary managers". Their most distinctive ability is to operate with more than one leadership style. They can shift easily from a team approach to command and control. They do whatever works depending on the situation. These leaders are focused on results, not methods, so they will try anything that helps them get more out of their people. (Ibid.).

They almost never use existing management systems, whether designed by the corporation or by consultants. They will take whatever structure is available and modify it to their needs. The role of top management is mainly to spot these people and assign them to the high-impact jobs. (Ibid.).

4. TECHNIQUES SPECIFIC TO INDIVIDUAL FUNCTIONAL AREAS

Value-creating integration is a true blending of strategies and operations that reaches into production, marketing, human resources, customer service identity, and may even result in an entire restructuring of the combined business to produce rewarding results (Smith and Quella, 1995: 26)

Segregating work by department or division and allowing key personnel to focus on merger issues in areas with which they are familiar is often done. Analysing one department at a time minimises the disruption of day-to-day operations. Listed below are a number of issues specific to individual functional areas:

This chapter will analyse the issues relevant to specific functional areas such as:

4.1 General management
4.2 Human resources management
4.3 Information systems management
4.4 Facilities and distribution management.

Management techniques specific to individual functional areas will also be discussed.

4.1 General Management

Just as important as seamlessly melding the two organisations, is an earnest effort to make use of the best of each company. Part of the merger policy should be to adopt each partner's best practices (Fisher, 1994: 50-53). Neither organisation should impose its methods or its culture on the other. An evaluation of which practices are considered the best could be performed by an outside party or consultant.

Amid the current re-engineering craze, many companies are finding ways to restructure work and work practices to achieve simultaneous improvements in cost, quality, and timeliness of production and delivery. According to Smith and Quella (1995: 27), changes in ownership or structure can establish a clear need to initiate re-engineering, and the event of the merger can throw people together in the kind of crisis environment that, when managed properly, unleashes creative energy and expands old bounds. Imagine if the synergy potential was multiplied by the improvement potential available within, as well as between, the merging companies.

The above point of view is contradicted by Arthur Andersen (1990). They state that during an integration, the temptation must be resisted to improve productivity or efficiency or implement projects that have been on the back burner. According to them it is much easier to merge the organisations without adding to the scope or complexity.

According to Smith and Quella (1995: 26) early action is key to realising synergy and establishing momentum. They continue to state that part of the motivation to act early is simply the time value of money. The sooner the benefits are captured, the more valuable they are and the sooner the investment is recovered. But the main reason to act early is the time value of enthusiasm: As time passes, ideas atrophy and adrenaline subsides. Often, no one is held accountable for recovering the present value of the acquisition price. Executives move on and management becomes engulfed in operations and is satisfied by strong earnings. Later is often never.

According to Chandler, (1962: 14), a basic tenet of corporate strategy is that an organisation structure must properly reflect the underlying strategy of the organisation to be successful. De Noble, et al., 1988: 84) are of the view that this simple concept is too often overlooked in merger planning. They believe that new lines of authority and reporting relationships must be established in order to create the context in which operating changes are feasible. It is incumbent upon the parent company to create a new organisation structure allowing the desired synergy to occur.

4.2 Human Resources -

4.2.1 Retention of Management

It makes good sense to retain the best employees possible in a merger situation, since the resulting company can only be as good as its people. Naturally, some people will leave the merging companies during the integration process, but it is important to encourage top-performing, top-quality employees to remain. The reason for this is obvious: the merged company will need the talents, skills, and leadership of all its outstanding employees in order to bring the integration process together successfully and carry the company forward.

According to Corwin (1991: 48), the process of selecting the final management team focuses on assessing each senior manager's strengths and weaknesses. Emphasis should be placed on their potential to cooperate productively with their counterparts from the other skills. Their ability to provide a strategic viewpoint on managing the merged operations also is crucial. Additionally, they need to be quick learners and genuinely excited by the opportunity to create a new organisation.

According to Polley (1990: 48) one way to retain top-quality people is to offer additional benefits or incentive programs following the merger. Any initial bonus can be followed up by an additional bonus if these employees remain for a certain time period after the merger is completed. Such actions will show employees that their skills are definitely important to the success of the merger and integration process and that they are wanted.

Some companies provide compensation in employment contracts for top-level managers in the event that a take-over occurs - that is, golden parachutes. This defensive take-over tactic could impede the ability of the company to retain top management. (Jensen, 1984: 118).

Golden parachutes can protect both stockholders as well as managers. Top-level managers and the board of directors act as stockholders' agents in deals involving hundreds of millions of dollars. If the alternative providing the highest value to stockholders is safe to another company and the retirement of the current management team, stockholders do not want the managers to block a bid in fear of losing their own jobs. Stockholders may be asking managers to sacrifice position and wealth to negotiate the best deal for them. (Ibid.)

A characteristic of most golden parachutes is that the pay off occurs only when the manager leaves his job. This creates an unnecessary conflict of interest between shareholders and executives. Current shareholders and the acquiring company will want to retain the services of a manager who has valuable knowledge and skills. But as the officer can collect the golden parachute premium only by leaving, the contract rewards him or her for taking an action that may well hurt the business. As the bidder assimilates the knowledge that turnovers among valuable top-level managers after the acquisition is highly likely, it will reduce its take-over bid. A company can eliminate this problem by making the award conditional on transfer of control and not on the manager's exit from the company. (Ibid.).

When companies start playing around with the fate of their employees, workers begin considering alternative employment. According to Fisher (1994, 50-53) executive recruiters also target the merger candidate. The smartest companies are the ones where top management sees the need to do internal recruiting. The enemy is this situation is time, because the people at the top are so busy with other merger tasks.

4.2.2 Attrition of personnel

Arthur Andersen (1986) states that controlling attrition is almost as important in a consolidation as retaining key employees. In most instances, a merger represents an excellent opportunity to clean house and reduce staffing loads for most departments. As economies of scale are realised, many of the existing and incoming employees will become unnecessary. Natural attrition rarely results in enough reduction to suit senior management.

According to Corwin (1991: 48), in the cases of job overlap, it is assumed that the acquiring or dominant company's employees will fill the positions. This makes for a number of pre-planned, day-one casualties. These changes, which usually can be determined during the pre-merger activities, need to be made as soon as possible.

A formal attrition plan, which can assist the natural process by creating incentives to depart, usually involves three basic areas: Early retirement, part-time employment and involuntary termination. (Ibid.).

Early retirement program funding can come from several sources, including overpayment of funds to the pension program in previous years. Involuntary termination is implemented only as a last resort. It is extremely important to initiate and complete this program early in the consolidation effort. The longer terminations continue, the more negative the work force attitudes, a hindrance to productivity and to a successful merger. Communicating the organisation's approach to termination to all employees will also make the process go more smoothly. (Ibid.).

If the labour force does not understand and support the new strategy, it is unlikely to succeed. De Noble (1988: 84) noted that if the strategy is predicated on such a major upheaval in personnel that their support will not be forthcoming, then the strategy must be modified or abandoned. This emphasises the importance of the attrition procedure.

4.3 Information systems management

While there are many factors affecting the success of an acquisition strategy, failure to bring the merger partners together on common information systems ultimately can torpedo the best acquisition plans. Most of the savings come from the merging of the infrastructure. This includes shutting down data centres, closing branches, and eliminating redundant departments. (Radding 1993: 60)

The information systems integration poses a particular challenge to the integration team. Integration of systems is costly, lengthy, and disruptive. Systems implications are better addressed and resolved early in the consolidation process. According to Radding (1993:61-64), there are three basic approaches to an acquisition. The acquiring entity can move the acquired entity onto its systems as quickly as possible, or the entities can mix systems, with each entity contributing its best systems. The third option is for the entities to operate for an extended period with separate systems. Each of the three basic approaches to consolidation has advantages and drawbacks, depending upon the particular entities and the specific situation:

4.3.1 Absorption - converting the acquired entity to the acquirer's systems

4.3.1.1 Advantages

- Fastest conversion
- Builds on economies of scale
- Allows the entity to appear as one entity to the customer
- Allows for extensive back office consolidation
- Changes the systems in only one entity
- Least costly
- Generates greatest saving

4.3.1.2 Disadvantages

- Misses worthwhile system or features
- Creates dissension among managers of the acquired entity
- Loses distinctiveness of the local entity

4.3.2 Best of the Breed - picking and choosing among systems of both entities

4.3.2.1 Advantages

- Results in the best possible systems set
- Emphasises the equality of the partners in a merger
- Allows the entity to appear as one entity to the customer
- Allows for back office consolidation

4.3.2.2 Disadvantages

- Slow
- Selection process may become political
- More costly
- Less savings

4.3.3 Separate systems - Entities continue to operate individual systems

4.3.3.1 Advantages

- Avoids problems and costs of terminating outside systems contracts
- Preserves local distinctiveness
- Encourages autonomous operation

4.3.3.2 Disadvantages

- No cost savings from consolidated systems
- No opportunities from economies of scale
- No savings form back office consolidations
- The new entities do not appear as one entity to the customers

The Arthur Andersen Merger Integration Practice Aid (1986) lists, among others, several reasons why an early approach is considered appropriate:

- Key personnel having knowledge of the system must be identified and persuaded to stay (at least until after the consolidation is complete).
- System operations tend to be under-documented, causing an expansion of time necessary to complete the process.
- Systems are likely to be on the critical path for affecting merger integration.

The information systems issues that should be considered include: (Ibid.)

- Business strategy: The use of information technology is rapidly becoming a major strategic weapon for many companies. Understanding the respective strategies and philosophies of the merging companies will be important in successfully consolidating the data processing organisation.
- Integration decision: . A decision must be made whether a partial, full or non-systems consolidation approach will be followed.
- Hardware and software: If merging organisations use different hardware and/or software, significant problems may be encountered in the integration process. A decision must be made whether to use the hardware/software of the acquiring or acquired organisation, or to use this opportunity to upgrade to new equipment. One suggested approach is to phase the integration process so that the initial effort merges the existing systems and secondary effort modifies/upgrades to a new system. Organisation of the physical data centres will also be a major issue.

The importance of systems integration is such that systems issues should be addressed during the due diligence phase. This was done in the integration of Stroh and Schiltz Brewing Company (Wood, 1987: 331). The detailed comparison of systems that was performed previously by the due diligence team formed the basis of the systems integration plan; groups of systems were identified that could be implemented independently with minimum disruption and maximum benefit. The integration team defined the sequence of systems implementation that generally followed the flow of information from the customer to the plants, and finally to the financial and marketing functions.

Several lessons were learned from the above-mentioned integration effort. First, because good systems personnel are in great demand, they may seek other employment rather relocate even if the buying company asks them. Thus, it is important to have the acquiring company's systems group quickly learn as much as possible about the target company's systems. (Ibid.).

Secondly, because of the pressure of day-to-day business functions, the systems group cannot rely heavily on users for training or other involvement in systems implementation. Therefore, the systems group must be prepared to take the primary role in systems integration. Third, because policies and procedures may differ between merger partners, the integration team must develop a thorough understanding of exactly what is being replaced before integration. (Ibid.).

4.4 Consolidation of physical facilities and distribution

4.4.1 Physical relocation

In addition to the many organisational, procedural and system changes inherent in a consolidation, mergers generally involve some form of physical relocation. According to Arthur Andersen (1986) a large part of the economies of scale, realised in a consolidation, come form the elimination of duplicate headquarters and home office operations. A typical scenario has the acquired company moving into the facilities of the acquiring company.

Politics, culture and management personalities will play more significant roles in this decision than any economic analysis or cost justification. Tradition can be a very strong motive, subject to extreme emotional pressure. (Ibid.).

The economies of physical consolidation should be carefully considered as part of the merger. Many times, companies consolidate plant, equipment and other fixed assets only to realise they have sacrificed service or capacity or growth potential. (Ibid.).

It is also important to assess the hidden cost of a consolidation of facilities, including relocation costs paid to employees and the cost of hiring if employees terminate employment rather than relocate. (De Noble, et al., 1988: 84) Underestimating hidden costs can lead to disappointment in ultimate acquisition performance.

4.4.2 Logistics function

In addition, a window of opportunity is created by the above-mentioned organisational, procedural and system changes as well as the physical relocation. The control of inventory through the co-ordinated effort of manufacturing, marketing, and distribution is a key advantage gained in recent years by closely managed companies.

The entire logistics function of the organisation needs to be re-integrated to ensure that the optimal balance between storage and movement is attained. The balances attained in the respective organisation prior to the integration process will not be applicable in the new organisation. A large proportion of the synergy opportunities inherent in the new integrated organisation is only attainable if the transportation and warehouse functions are re-engineered. A mere consolidation of physical facilities as suggested above, would see many of the synergy possibilities go unexplored.

The related topic of combining distribution systems should therefore also be addressed. According to Best and Seger (1989:48-53) newly merged systems often lag projections in such areas as cost reductions, increased market share, widening of geographical coverage, and quality of delivery and customer service. A major problem is that many executives identify integration of distribution networks as a relatively straightforward task that should be accomplished as quickly as possible. But, the emphasis on speed often leads to incorrect assumptions, inadequate research, sketchy planning, and little regard for the long-term strategic implications of the combination.

After the merging two or more networks with similar product lines that serve the same final market, the combined company then can consolidate advertising agencies, sales forces, order entry, warehousing, and transportation. For the combination of the systems to succeed and provide the anticipated synergy benefits, a thorough and objective assessment of several key factors is critical. They include channels of distribution, order entry co-ordination, pricing, organisational integration, inventory control, credit invoicing and receivables policies, distribution operations, and cost allocations. Although products and end-markets may be similar, the channels of distribution may differ radically. (Ibid.).

4.4.3 Consolidation of the sales force

Another perplexing issue is the consolidation of sales agents or brokers. To consolidate two sets of sales agents, serving unique needs, might sacrifice the unique market positioning the independent companies have achieved. Furthermore, one division's brokers may have conflicting competitive product lines that preclude representation. (Ibid.).

Taking and co-ordinating orders for two or more divisions can be difficult for a variety of reasons. There may considerable differences in order entry policies and procedures, customer ordering patterns, pricing policies, and methods of ordering. To co-distribute a product, the orders either must physically come in together or be joined at some point internally before shipping. Ideally customers should be persuaded to order together. If orders are physically entered at two or more locations on different systems, tying them together prior to shipment is haphazard and subject to error. Although systems solutions to these issues are possible, they are time-consuming and require substantial investment. (Ibid.).

At the least structured form of co-distribution, selective co-operation attempts to identify those are of greatest potential synergy. However, the autonomy of the divisions is not violated and no overriding organisational structure is employed. Separate operating units in the same corporate structure seek individual distribution functions in which a co-operative effort can reduce costs or improve service. (Ibid.).

5. INPUT FROM THE BUSINESS WORLD

5.1 Business persons approached

The first three chapters were made available to business persons with practical experience of post-merger integration. Experts in specific fields, though not necessarily in mergers and acquisitions were also consulted. Comments were specifically requested on the following issues:

- The author's analysis of the critical success factors in the merger integration process
- The views of business persons on what should be considered the critical success factors.
- The author's analysis of the management techniques that could be utilised to manage the critical success factors identified.
- Additional techniques that business persons would consider in managing the critical success factors in the post-merger integration process.
- A practical perspective on the posed problem.

Inputs were received from the following business persons:

- The managing director of a listed property company which had grown to its present prominence partly by means of mergers and take-overs. This company was also recently involved in a merger with an international company.
- A company secretary who was part of the executive team responsible for the take-over, and subsequent restructuring, of a listed manufacturing entity.
- A partner in a audit/consulting firm with extensive experience in the due diligence phase of the merger process.
- An information technology expert who was involved in a large banking merger.
- A consultant with experience in change management.

5.2 Comment receiced

The comments received were generally very favourable and agreeing in nature. One business person was of the opinion that, although the study was probably very applicable to an academic study of the subject, he would have liked to see a study of the practical applicability of the proposed techniques. This has been included in the section relating to opportunities for further research. The comments of the business persons will only be discussed below if additional comments pertaining to a specific issue were made or if the persons disagreed with a specific issue. Agreement with specific issues is not mentioned as this was prevalent in most of the comments received.

5.2.1 Strategic Planning

Specific agreement with the utilisation of strategic planning for all aspects of mergers and acquisition was present in the comments obtained. It was felt that the technique could be used, not only for post-merger integration, but also to expedite the actual take-over process.

5.2.2 Synergy

With regards to the statement that the synergy realised in mergers is most often of a financial nature, it was felt that the reason for this could be found in the original justification for the merger. Therefore, although it is true that financial synergy is realised more often than, say, technology and marketing synergy, the reason for this occurrence is partly due to the fact that it is also most often one of the main reasons for the merger.

It was mentioned that plenty of mergers happen because the acquiring company's managers believe that synergy opportunities will exist in the future because of a current trend in the development in technology. After the merger, these synergy benefits are often not realised because of subsequent changes in the direction of technology development. Despite this, technology is still considered to have the largest potential for synergy benefits.

Marketing synergy realised by combining separate sales forces was considered problematic due to differences in markets despite product similarities. One combined sales force can therefore damage market segmentation. Dificulties in consolidation of advertising agencies were also anticipated.

5.2.3 Managerial Competence

It was commented that the lack of managerial competence could be partly attributed to the fact that management within the acquired company is often not made aware of future plans at the outset. This uncertainty also trickles down to lower levels with disastrous consequences. Reputations are built up in the market place. Parent companies can be known to be ruthless with regard to the management of newly acquired companies which further exacerbates the situation.

5.2.4 Communication

A further advantage noted of the use of a communications plan noted was that mass external communication can heighten the esteem that employees have of the merged entity and that it goes a long way to lessen the pain, concern and stress associated with a merger.

In the research effort performed by the author, he came across numerous web sites on the Internet where companies involved in mergers had posted information to clients and employees relating to the proposed merger. Often an e-mail address was also included to which anonymous queries could be directed.

5.2.5 Size Mismatch

The importance of integration management in instances were there is a size mismatch was stressed. It was commented that it is often the entrepreneurial flair which leads to the success of a smaller company. When such businesses are merged, the "magic" is often lost. Ongoing success can be achieved only where entrepreneurial flair is not stifled and where management retain a financial interest in the company.

Specific agreement with the use of transition teams was prevalent in the comment received.

5.2.6 Due diligence investigation

The only criticism of the enhanced use of due diligence investigations, to include tools such as Novell's Merger Book, was that it is not possible to obtain the relevant internal information before the merger in the instance of a hostile take-over. It was also mentioned that the critical issue in the due diligence investigation is often whether it will be possible to dispose of unwanted parts of the newly acquired company after the merger and at what price the disposal will be made. The importance of a complete due diligence investigation encompassing more than the purely financial areas, was also confirmed by several of the business persons consulted.

5.2.7 Change management

There was also prevalent agreement with the suggested technique of using middle managers as change agents. It was also stressed that it is important to create a common future/strategy and that companies' management teams should participate in the development thereof. If this is not done, management could get stuck in the past, following the old strategy, or they might not buy into the new strategy due to a lack of involvement in the development process.

On the question of whether it is advisable to attempt to improve productivity during the integration process, it was felt that it should be attempted unless a time limit on the integration process restricts such an attempt. The realisation of improved effeciency during the integration process is recommended partly in an attempt to capitalise on the enthusiasm and momentum created by the merger. It was agreed that waiting until after the integration might lead to a situation where the proposed improvements in efficiency are never realised.

5.2.8 Personnel management

It was commented that personnel issues played an important role in other functional areas, and that it could not be viewed in isolation. This was particularly applicable in information systems management where it was mentioned that one of the largest cost savings could be attributed to a saving in supervising personnel costs.

Personnel issues were also considered relevant in the selection of the specific systems to retain. It was agreed that this is very much a political issue that needs to be approached keeping personnel issues in mind. It was also considered important to identify clearly, upfront, who would be responsible for the decision of exactly which personnel should be considered key personnel and therefore important to retain in the organisation.

5.2.9 Information system management

Furthermore, regarding information systems management, it was felt that the mentioned disadvantage that the retention of separate systems could lead to a perception by customers that a new entity had not been created, could in some instances be an advantage. This would happen if, for example, both companies had loyal customer bases.

It was agreed that systems issues should be addressed during the due diligence phase but this was considered problematic due to the skills base of the current providers of due diligence services. It was also agreed that a phased approach to integration, with an initial effort to merge the existing systems and a secondary effort to upgrade the system, was optimal due to the rapid pace of technology change.

In conclusion, it was believed that, despite the current trend of down-sizing and unbundling, conglomerates would probably soon be merging some parts of their businesses with like businesses owned by other conglomerates, for mutual gain.

6. CONCLUSION

6.1 Results

The management of corporate acquisitions is a complex and multidimensional process. The author has shown how decision making for corporate acquisitions interacts with strategic planning in the large, diversified corporation. According to Lorange, et al., (1987: 13) the relationship between corporate strategy and acquisition analysis needs to be viewed in the larger context of the strategic planning process. It can also be noted that this relationship does not translate into a simple set of decision rules that differentiates between successful and unsuccessful acquisitions.

It is crucial to have a well-planned and well-managed integration process. However, there is no magic formula. The merging of two institutions cannot automatically and successfully integrate without management's direction and planning. How well the integration process is managed will greatly affect not only the profitability of the merged entity for many years to come but ultimately its shareholder value - the overriding reason for companies to merge in the first place (Polley, 1990: 51).

Companies that have mastered post-merger integration know exactly what they are looking for in the market and exactly what they should be willing to pay for it. These companies frequently outbid their rivals because they know what they can do, while their rivals are for the most part guessing (Smith and Quella, 1995, 30)

According to Corwin (1991: 50), successful mergers occur when both sides are open to new possibilities. For an acquiring company, the most productive attitude is one of flexibility; for the acquired company, it should be one of co-operation.

6.2 Conclusion

The study has shown that there are certain techniques that can by utilised in the post-merger integration process. The specific issues relevant to the integration of selected functional areas were also discussed. Business persons were, by and large, in agreement with the proposed techniques.

It is important to note that the problems posed by the integration process are not always unique but are often common business problems with specific differences in focus. Known management techniques, with adaptations for the specific challenges posed by the post-merger integration process can therefore be utilised.

6.3 Opportunities for further research

Based on the results of the research done and due to the limitations of the research methodology, several further opportunities exist for further research. These are, amongst others:

- A quantitative analysis to establish exactly what the critical success factors with regards to merger integration are.
- A further investigation into management techniques for the management of individual critical success factors.
- A study of the practical application of each of the management techniques and processes recommended should be done to determine the effectiveness and practicality of each technique in the merger and acquisition environment.
- A quantitative analysis of the success achieved by companies that have utilised the techniques mentioned.

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