Research Proposal

Presented to

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1 Introduction

It is often said that the only thing that does not change is change itself. This relates not only to the life of each individual, but companies too are forced to change in order to survive due to developments in the area of technology, globalization, the downfall of communism and saturated markets in the industrialized economies. According to Tsoukas & Chia\(^1\), the indivisible continuity of change is what constitutes economic reality, so that companies need more time for adapting internal strategies and structures to the changing external environment. In the meantime, however, the time available for adapting to external changes before they negatively influence business continuously decreases. Or stated differently: companies need to be able to adapt to external changes more often and faster than before if they want to stay in business.

This implies that companies regularly carry out strategic analyses based on the questions ‘where are we now’ and ‘where do we want to be in a certain period of time’ to evaluate whether survival is secured in the long run. If these analyses show that the company has weaknesses in a critical area, or lacks critical resources, there is the need for action to fill this gap. Depending on its nature and the company’s own financial and other resources, this can either be done through internal development, strategic alliances or through the purchase of external resources for example in the form of acquisitions.

Acquisitions can significantly influence the future of a company – in both directions. The often-large potential for value generation can turn into disaster threatening the company’s existence if something goes wrong. Hence, there can be no doubt that managing acquisitions is one of the most challenging tasks management can face. Understanding which factors influence the success of acquisitions is therefore important not only to academics but also to those top executives that are in charge of the management of acquisitions; especially because a recent survey by KPMG shows that 69% of all mergers and

\(^1\) Tsoukas & Chia, 2002, Organizational change, p. 576
acquisitions in their sample did not increase value. The existing scientific literature on acquisitions tries to identify factors that influence the success of acquisition. When the topic first became one of interest, most publications dealt with single aspects of acquisitions such as due diligence, strategic fit, or people issues. In the nineties however, the first literature has been published dealing with a key aspect of acquisition – the process itself – in which acquisitions are understood as integrative management task. This view is adapted in the proposed thesis, which intends to enhance the understanding of the acquisition process by emphasizing the change perspective inherent in acquisitions, especially post-acquisition integration. Although Kitching, who can be regarded as one of the pioneers of research into the success factors of acquisitions, already mentioned ‘managers of change’, the approach of understanding integration as change process has not been consequently advanced. The basic idea here is that there are many parallels between change processes in general and post-acquisition integration processes in particular so that the approach to transfer existing knowledge on change and change management appears to be a logical step towards achieving this progress in understanding acquisitions and post-acquisition integration.

This proposal introduces a suggested research project looking into the change processes taking place in the post-acquisition integration process and identifying instruments that can help to manage the integration process more successfully in order to achieve the acquisition objectives.

In the next section, the key concepts of this research – acquisitions, post-acquisition integration, change and change management – are briefly introduced. Then these concepts are combined into a model, which is intended to serve as guideline for the proposed research, followed by a presentation of the research questions. A brief section about the intended methodology concludes this research proposal.

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2 KPMG, 2006, Post deal success, p.2; other prior studies have produced a success-to-failure rate of approx. 50 per cent (e.g. Hunt, 1990, Acquisition behavior, p.70).
3 Kübler, 1994, Akquisitionsprojekte, p.2
4 Kitching, 1974, European acquisitions, p.126
2 Definitions of key concepts

2.1 Acquisitions

In the organizational context, the term ‘acquisitions’ generally refers to the purchase of a company. In the US-dominated literature, ‘mergers & acquisitions (M&A)’ is used often as general term for the complex process of acquiring, merging or selling companies i.e. for the process by which two organizations are brought together in varying degrees to form one organization. However, acquisitions and mergers (as well as the other forms such as management buyout or venture capital deals) differ in formal procedures as well as in the way the deal should be managed. Most German researchers, who took over the term and acquisitions from the English speaking literature, define acquisitions as process in which one company acquires another company or a business unit and retains its name and control (this can also be a hostile takeover), while ‘merger’ is used for describing the fusion of two companies into a new entity, often in cases were both partners have equal sizes or other similarities, which make such a deal favorable (such pure mergers of equals are relatively rare). This understanding of acquisitions serves as basis for the proposed thesis.

2.2 Post-acquisition integration

In the context of acquisitions, when two previously independent organizations are combined, there is the need to re-define the division of labor and the corresponding coordination mechanism. If an organization is understood as social system with defined boundaries, an acquisition and the subsequent integration represents a new definition of these boundaries as the acquisition target, which was previously part of the system’s environment, is transferred into the inner part of the system step-by-step during the integration process. The objective of the integration process, which can be defined in more detail as
"[...] the making of changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole",

is to create a joined company that functions smoothly, is stabilized, makes more effective use of existing capabilities and is able to achieve the strategic objectives of the acquisition through the transfer of resources. Integration activities include integration planning, integration realization i.e. implementation and integration controlling.

2.3 Change and change management

Organizations are always changing – new products are developed, employees quit working and others start, bringing new ideas into the organization. Change is the normal condition of organizational life. There is, however, a difference in the magnitude of the changes taking places. All these small variations mentioned above can be temporarily replaced by large and drastic modifications in the organization with which the organization intends to improve its ability to react and to perform. The term ‘intends’ emphasizes that this kind of change is not just taking place but it is a conscious and actively initiated decision of the organization. These changes are also referred to as ‘transformative change’ or ‘transformation’ – poetically expressed these changes allow ‘what is stuck in the past to die so that the present or future can live’. It is suggested for the purpose of proposed thesis that post-acquisition integration presents this kind of change.

Change programs do not work themselves out, they need to be made to work on any given occasion – change needs to be managed. Similar to ‘change’, the term ‘change management’ is widely used but not clearly defined in the literature – in general it refers to answering the question how to handle organizational change i.e. which changes can be actively initiated to reach

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5 Tsoukas & Chia, 2002, Organizational change, p. 567
6 corresponding to Wöhrle, 2005, Wandel, p.52
7 Cloke & Goldsmith, 2000, Resolving conflicts, p.5
8 Tsoukas & Chia, 2002, Organizational change, p.568
certain objectives, how they can be successfully introduced and controlled\(^9\) or ‘the art to manage a process with inevitable momentum’\(^{10}\). It occurs when certain players (for example top management) try to change one or more organizational dimension at a certain point in time comprehensively and consciously\(^{11}\). AL-ANI \& GATTERMEYER define change management as all measures necessary to initiate and introduce new strategies, structures, systems and behaviors. It is less concerned with the detailed development of how things ought to be (nominal conditions) but it is concerned with increasing the ability and willingness to change and developing visions as prerequisite for designing and realizing new solutions\(^{12}\).

3 Combining the key concepts into a proposed research model

While in the beginning of researchers’ interests in the topic acquisitions have been mainly researched in terms of their net wealth gains (“capital markets school”), the underlying strategy and the strategic fit of acquirer and acquired company (“strategic perspective”) and organisational fit (“organizational behavior school”), a fourth perspective has developed as a response to the failure of the three other to explain success or failure of acquisitions\(^{13}\). This so-called ‘process perspective’ recognizes that the acquisition process itself as presented in the graph below is a potentially important factor in determining the outcome of acquisitions\(^{14}\).

\[ \text{Preparatory activities} \quad \text{Target Selection, Screening & deal initiation} \quad \text{Due Diligence Analysis & Planning} \quad \text{Negotiations, Signatures & Closure} \quad \text{Integration} \]

\(^{9}\) Bokler, 2004, Beratung, p.61
\(^{10}\) Haiss, 2000, Messung, p.59
\(^{11}\) Veil, 1999, Change Management, p.62
\(^{12}\) Al-Ani \& Gattermeyer, 2001b, Entwicklungen, p.13
\(^{13}\) Haspeslagh \& Jemison, 1991, Managing acquisitions, p.12 ff.
\(^{14}\) Jemison \& Sitkin, 1986, Corporate acquisitions, p.107
If a company decides to acquire another one the target company is usually integrated into the acquirers’ operations\textsuperscript{15}, structures and processes to a varying degree. This post-acquisition integration (PAI) process has the objective to create a joined company that functions smoothly, is stabilized and makes more effective use of existing capabilities\textsuperscript{16}.

Based on MACE & MONTGOMERY’s work, who argue that

“[…] the values to be derived from an acquisition depend largely upon the skill with which the administrative problems of integration are handled. Many potentially valuable acquired corporate assets have been lost by neglect and poor handling during the integration process”\textsuperscript{17}.

some authors argue that – while some critical decisions need to be made before the acquisition is closed – it is the actions and activities in PAI process that can bring benefits and create value. On the other hand, problems in the PAI process have been cited as one of the most important causes of bad acquisition performance\textsuperscript{18}; it is estimated that one-third of all acquisition failures are caused by integration difficulties. Thus, it can be concluded that the PAI process represents a major managerial challenge.

Looking at PABLO’s definition of the PAI process as

“[…] the making of changes in the functional activity arrangements, organizational structures and systems, and cultures of combining organizations to facilitate their consolidation into a functioning whole”\textsuperscript{19},

it gets obvious that the process of integrating a company into another existing operation deals with planning, initiating, managing and controlling changes of a significant range.

\textsuperscript{15} This is not the case if the acquisition is made in order to form a financial holding, which is just interested in the profits and cash generated by the target and leaves the target’s operations as they are. This is for example often done when General Electric acquires other companies to diversify its portfolio.
\textsuperscript{16} Datta, 1991, Organizational fit, p.281 ff.
\textsuperscript{17} Mace & Montgomery, 1962; quoted in Gerpott, 1993, p.5
\textsuperscript{18} e.g. by Pablo, 1994, Determinants, p.804 ff.
\textsuperscript{19} Pablo, 1994, Determinants, p.806
Based on Leavitt’s classification of planned changes, it is expected that managing the integration implies managing changes concerning tasks, persons, structures and technologies\textsuperscript{20}. These changes can be viewed as instruments for turning the potential benefits created by the acquisition into actual benefits, for example in the form of synergies or inter-organisational transfer of technology and know-how.

However, the complex and dynamic task of combining two previously independent companies with different cultures, histories, tradition, policies and practices is associated with uncertainty and unpredictability. It is rare that companies are able to smoothly develop and adhere to transition plans. As Harzing & Hofstede state:

“[o]rganizations will change when they should not; and do not change, when they should.”\textsuperscript{21}

Hence, it can be expected that during the PAI, changes will occur that were neither planned nor expected when the acquisition was originally planned and agreed upon. While some of these unplanned changes might support the purpose of the PAI process, or have no impact at all, it is likely that some of them such as the key performance carriers leaving the company will create major obstacles that need to be dealt with effectively if the PAI is to achieve its objectives.

Managing post-acquisition integration therefore includes both; implementing planned changes and dealing with unplanned changes as they occur during the process. Combining this with the argument that

“[t]he eventual success or failure depends to a very large extent on how effectively an acquisition is implemented”\textsuperscript{22}

it is argued here that the actual value creation of an acquisition is determined by the degree to which the planned changes are implemented as well as the degree to which unplanned changes are effectively managed:

\textsuperscript{20} as discussed in Kirsch et al., 1979, Geplanter Wandel, p.156/ \textsuperscript{22} Datta & Grant, 1990, Relationships, p.30
\textsuperscript{21} Harzing & Hofstede, 1996, Planned change, p.298
\textsuperscript{22} Datta & Grant, 1990, Relationships, p.30
The PAI process has been the subject of a large number of publications of which a large share was written by consultants and practitioners for practitioners. Such literature attempts to explain what happens to people in the acquisition process and what typical management errors take place, but is ‘extremely voluminous and empirically thin’\(^\text{23}\). Especially the organizational behaviour school focuses on the negative impact on employees, discussing for example the significant increase in stress levels, the negative emotions related to uncertainty and actual job losses, or the clash of organizational cultures, and proposes how to lessen the negative impact of these developments. Some of these discussions however forget that the ultimate purpose of acquisitions and post-acquisition integration is improve the acquirer’s performance – it surely is important to take into account the people side when making integration decisions, as long as the focus remains on achieving the acquisition’s objectives.

Therefore the proposed thesis intends to combine the discussed people problems and other potential challenges – which are understood as unplanned changes – and the planned changes typical for post-acquisition integration into

\(^{23}\) Hunt, 1988, Successful acquisitions, p.4
a model of post-acquisition integration. This model will be completed by adding determinants of both planned and unplanned changes and instruments that might be available for avoiding or at least lessening the negative impact of the unplanned changes on achieving the acquisition’s objectives. The existing academic literature in this area has three basic objectives: to describe integration actions pursued by managers, to understand the impact of these actions on the acquiring and acquired company and to explain how the process leads to value creation\(^2^4\) – the proposed model includes all of these three aspects.

### 4 Research questions

Starting point for discussing post-acquisition integration as change process is a comparison of the two processes – change in general and post-acquisition integration in particular. For both, several process models exist which will be taken as basis for the comparison. In addition to the process models, the literature discusses several dimensions of change; each of which will be discussed in terms of its relevance to post-acquisition integration.

Based on the assumption that post-acquisition integration can be understood as change process, the following research questions determine the structure of this thesis:

- What are typical types of planned changes that need to be implemented during post-acquisition integration in order to achieve the acquisition objectives? Which factors determine the type of planned changes to be implemented?
- Which types of unintended changes are likely to take place during post-acquisition integration? What impact can these changes have on the success of the post-acquisition integration process? What are the determinants of these changes?
- Which managerial interventions or instruments can help to avoid, counteract or effectively manage impeding changes?

\(^{24}\) Birkinshaw et al., 2000, Post-acquisition integration process, p.400 ff.
These research questions will serve as framework for the proposed thesis. Additional epistemological interest lies within the identification of possible relationships between planned and unintended changes, their determinants and instruments and the development of a model of post-acquisition integration. This aims at of providing organizations with the opportunity to incorporating a more complete understanding of the integration process and its chances for success in the pre-acquisition processes target evaluation and price negotiations and – finally- the actual decision to acquire or not.

5 Methodology

The proposed thesis will have four levels of value creation: On the first level, the objective is to systematically review the existing literature on post-acquisition integration with the purpose of identifying critical factors and managerial instruments in the context of change and change management. Many critical factors have been discussed already – such as the acquirer’s acquisition experience or the level of autonomy granted to the target’s management. However, while these studies empirically show that the respectively discussed factor does increase acquisition performance, it often only briefly presents (if at all) how the factor influences performance i.e. if there are other factors that interrelate with the discussed one and lead to the empirically proven results. In addition, those critical factors and instruments that are only briefly mentioned in the post-acquisition literature will be discussed and analyzed in detail. The second level is concerns adding new critical factors and instruments that have been discussed in the context of change in general (or elsewhere in the management literature), but not in the context of post-acquisition integration. On the third level, all these factors will be combined into a proposed model of planned and unplanned change in post-acquisition integration. Corresponding hypotheses about relationships between the different variables will be developed. The fourth level refers to testing and refining the model. This will be based on analyses of a number of existing (already published) case studies. In addition, an expert questionnaire will be
developed and distributed to get additional confirmation or rejection of hypothesized relationships between variables.

![Graph showing level of value generation](image)

**Fig. 3: Thesis’ value creation**
Source: Own development

### 6 References


Kübler, R. (Akquisitionsprojekte; 1994), Management strategisch motivierter Akquisitionsprojekte, Köln: Josef Eul Verlag


Veil, P. (Change Management; 1999), Der Zeitfaktor im Change Management, München: Rainer Hampp Verlag

Wöhrle, A. (Wandel; 2005), Den Wandel managen: Organisationen analysieren und entwickeln, Nomos Verlag

7 Additional Key Literature

7.1 Mergers & Acquisitions


Lubatkin, M.H. & Lane, P.J. (1996): Psst... The merger mavens still have it wrong!, Academy of Management Executive, Vol. 10 (1), pp. 21 ff.


7.2 Change & Change Management


