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THE INFLUENCE OF SPEED OF INTEGRATION ON M&A INTEGRATION SUCCESS

Despite the importance of the dimension of time in the world of competitive strategy, only a few researches have focused on the issue of the speed of the integration (SOI) in the process of merger/acquisition (M&A) and its impact on the deal-success. This article focused on the issue of speed of integration and its impact on the integration effectiveness and the success of the M&A. This impact changes depending on the combination of a number of variables such as the main reason of the acquisition, the type of acquisition, the characteristics of the companies involved in the acquisition, and the selected integration approach. Therefore, every acquirer has to pay attention to the SOI variable and to adjust the optimal speed to the specific acquisition scenario.

Keywords: **mergers and acquisitions (M&A), post-aquisition integration, speed of integration (SOI), integration approach, integration effectiveness, M&A success.**

In the global business world of the 21st century, a world characterized by a high level of dynamism and steadily increasing competition, companies and corporations need to have the ability to grow rapidly, to act efficiently and effectively, to be profitable, to be flexible, to develop dominant competitive positioning, and to be on a high level of readiness for the future. Without these attributes, they will have difficulties being competitive (Schuler – Jackson, 2001).

But life in the business domain is becoming steadily more difficult due to the growth in the dynamism, complexity, and uncertainty of the market, through frequent changes in technologies, in the structure of the competition, in the borders of the field, and in the rules of the game (Asch – Salaman, 2002). Therefore, companies and corporations search incessantly for new business models and business strategies that will improve these qualities, as fast as possible, so that they can respond in the best possible way to the changing demand of the clients and to the changes in the map of competition in the domain.

Growth can be achieved in an internal manner through "organic growth", which is generally slower and is limited, more or less, to the growth rates of the field (if it is growing). Alternatively, growth can be achieved in a faster manner through external growth (non-organic growth) that allows growth at nearly unlimited rates through strategies of alliances, licensing, or M&As.

In external growth the company is aided by the resources and abilities of other companies and this synergy can significantly improve the company's competitive ability. Thus, the strategy of M&As is one of the main strategies adopted today by companies and corporations so as to expand into new markets, diversify products and services, and increase the competition in the field (Shimizu et al., 2004).

Even the mega-companies leading in their fields perform mega- M&As to achieve additional advantages in growth and diversification. Among these companies, we can present as examples the mergers between Exxon and Mobile, between America Online and Time Warner, and between Chrysler and Daimler and the acquisition of the German communication company Mannesmann by its competitor Vodafone AirTouch for 179 billion dollars.

Some companies, such as Cisco, adopt this strategy as their leading competitive strategy (buy vs. build) and have an acquisition minded culture, which is appropriate to the market in which they function (Chatterjee et al., 2002). Cisco has performed more than 60 acquisitions during the years 1996-2000 and in this period the company's stocks rose an average of more than 50% a year (Gadiesh et al., 2003). Another example is IBM, which performed 17 acquisitions of an overall value of about 1.5 billion dollars in 1999 alone (Fowler et al., 2003).

Technological developments, primarily in the fields of computerization, communication, and information, along with the process of globalization, processes of privatization of governmental companies, the liberalization in the transfer of merchandise and services between countries, and the trend of unification between fields and industries and companies and regions – all accelerate the popularity of the use of M&As strategy (Hitt et al., 2001).

The quantity and financial scope of M&As in the world has been constantly rising from the 1980s and the popularity of this strategy is steadily increasing. In 2006, for example, the scope of the M&As in the world had a financial worth of 3.6 billion American dollars.

Success and Failures in M&As

The Success Rate of M&As

Although for many years many researches have been conducted endeavoring to identify and examine the parameters that influence the success of M&As and although considerable knowledge and experience have been accumulated in the academia, in the field of business consultancy, and in business practice, the rate of failures of M&As is very high and reaches at least 60-80%, depending on the type of research performed (Marks – Mirvis, 2001).

The significance of these numbers is that the increase of the value for the companies through the process of merger or acquisition is not at all a trivial matter and entails a considerable business risk, even when there seemingly is a high potential of synergy between the companies. The rate of risk increases in cross border M&As that pose tremendous managerial challenges, especially the issue of the integration between the companies (Barkema et al., 1996; Child et al., 2001).

Factors that Influence the Success Rate of M&As

Numerous empirical researches attempted to identify external variables (related to the field and the environment) and internal variables (related to the companies involved in the process) that will help predict the success of the M&As. However, we know very little and there is a large gap between the dominance and number of the M&As in the world and the outcomes of academic research in this field (Shimizu et al., 2004). King et al. (2004) maintained that even when the impact of variables such as previous experience in acquisition, mode of payment for the acquisition, level of relatedness between the companies, and the type of acquired company, variables that seem to greatly influence the acquisition success, are examined, a significant correlation has not been identified between them and the M&A success. These findings pose a great and complex challenge to the researchers in the field of M&As and indicate the need to continue to research in-depth and in-breadth the parameters that influence the overall M&A deal success.

When asked to draw on their recent experience to pinpoint the critical elements of a successful cross-border M&A transaction, respondents (managers) most often cited "orchestrating and executing the integration process" (47% of respondents), conducting due diligence (43%), and energizing the organization and understanding cultural issues (40%). Interestingly, the same factors were generally seen as key to successful domestic transactions, too, though cross-border deals obviously place greater emphasis on culture differences and various integration approaches (Accenture & Economist Intelligence Unit, 2006).

If the stage of the integration between the companies in the M&A is focused upon, then variables such as strategic fit, synergy potential, and cultural differences between amalgamating entities (Deloitte Report on M&A, 2007) influence the success but the mode of integration performance is the main element that must be addressed. The integration performance mode is a critical variable in the success of M&As and many research studies have attempt to find a relationship between the different scenarios of the M&As characteristics and the way in which the integration is performed so as to examine what influences the integration success. The mode of integration performance includes decision regarding the integration depth and the performance speed.

An Important Success Factor: The Speed of Integration (SOI)

Despite the importance of the dimension of time in the world of competitive strategy, only a few researches have focused to date on the issue of the speed of the integration in the M&A process and its impact on the M&A deal success (Homburg – Bucerius, 2005; 2006). Vester (2002) argued that the integration speed is one of the main factors of success of the integration process in the M&As of technology firms, it is essential to the whole integration process, and it is necessary to move rapidly and consistently, although some of the managers and the workers may feel a certain discomfort with the relatively high speed.

The natural tendency of the management that faces a decision regarding the speed of the integration is to pass the integration stage at the most rapid speed possible from the following reasons. The first reason is to quickly stabilize the organization and to reduce the period of uncertainty of all the interested parties influenced by the process: clients, workers, suppliers, distributors, etc. (Angwin, 2004; Shay, 2000). The second reason is to reduce to a minimum the cost of the integration, which depends, among other factors, on the duration of the time that it lasts (Angwin, 2004). The third reason is to begin to enjoy, as soon as possible, the fruits of the synergy between the firms and to hasten the time of the return on investment in the acquisition (Shay, 2000). Since an acquisition generally requires a high investment on the part of the acquiring firm and the financing costs are burdensome (if an external source of financing is used), the expectation is, both on the part of the owners and the managers and on the part of the capital market, for a return on investment time that is as soon as possible, thus influencing the estimates of the analysts in the capital market and the stock value. Rapid integration generally creates positive momentum for the company's image in the capital market, which is good for the company. The *fourth reason* is to utilize the manager's managerial focus on the implementation of the acquisition, a focus that steadily weakens as time passes from the time of the acquisition (Angwin, 2004). The *fifth reason* is that from the competition's perspective, the shortening of the integration period reduces the period in which the company is more vulnerable to a competitive attack from the competitors and in addition creates high protective barriers against imitation by the competitors (Angwin, 2004; Shay, 2000). The *sixth reason* is to free as fast as possible limited organizational resources, such as management resources and personnel, for other strategic processes of the organization, including the possibility to perform additional M&As.

One of the companies that adopt the fast integration approach is General Electric (GE) Capital, which tends to begin the integration stage as early as possible. The company prepares in every acquisition an aggressive integration program for the first one hundred days so as to perform an operational and cultural unification between the companies as fast as possible (Stopper, 1999).

On the other hand, the research of Olie (1994) based on the case studies, provided support to the assertion that slow integration helps reduce the conflicts between the parties involved in the process. In the same vein, Ranft and Lord (2002) found, also on the basis of a number of case studies, that slow integration helps build trust among the workers of the companies. Another reason to slow down the SOI is that the due diligence process conducted before striking the merger deal, usually shortens the learning curve required after the acquisition to know the acquiring company in-depth. In contrast, an insufficient due diligence process on the part of the acquiring company can further impede the integration between amalgamating companies. In other words, the acquirer's familiarity with the acquired company's business dealings and profile influences the integration speed (Capron – Pistre, 2002).

In their recent study Homburg and Bucerius (2005) examined the influence of the speed on the success of the integration as a function of the marketing and the sales alone. They found different relations between the speed of the integration and the success of the acquisition, as depending in combination on internal relatedness and external relatedness.

The process of re-organization of the combining companies is a critical process that should be accomplished early, quickly, and correctly, and in any case, the time required to complete the integration must not be undefined (Schuler and Jackson, 2001). Therefore, the speed of the integration needs to be, on the one hand, as fast as possible and, on the other hand, on a realistic time schedule. This necessitates very pro-active involvement on the part of the management (Gadiesh et al., 2001; 2003).

The reason for the acquisition may also dictate the integration speed. For instance, the acquisition of a company so as to acquire the new technologies it develops is influenced by the time constraints and the window of fleeting opportunities. In another situation, a company that acquires a local company so as to penetrate into a new growing market can perform the integration slower.

Chanmurgam et al. (2005) argue that most acquiring companies focus their post-merger attention on bringing the two entities together as quickly as possible. Yet they believe that the goal of post-merger integration should be value creation, not just quick integration, and that post-merger activities should be prioritized according to the value they are believed to create. For example, if the greatest value in a merger is cross-selling opportunities to the new base of common customers, the integration process needs to enable and ensure the rapid transfer of customer information and the development of integrated account plans, while integration of lower-value activities can be meanwhile postponed. This added value-creating approach to post-merger integration is more akin to business transformation in its emphasis on unlocking value through meticulous planning and the process of proactively designing a layout for a new combined organization.

Speed of Integration – Case of the Daimler-Chrysler Merger

To illustrate the dilemma and the influence of speed of integration, we present the example of the mega-merger of Daimler and Chrysler, which began in 1988 and created a giant car company that included 428,000 workers. There is no doubt that the challenge of the merger was complicated and difficulty and required coping with a broad variety of areas and activities that were different in the two merging car companies.

J. E. Schrempp, CEO of the merged company, defined a period of only two years as the finish date for the integration process between the companies and pushed from day one to perform the integration as fast as possible. Mr. Schrempp was convinced that staying focused on top priorities and maintaining momentum was a crucial success factor for the merger. He said that Daimler-Chrysler should concentrate on "speed, speed and speed", because once you slow down, people often lose focus. To meet the CEO's aggressive target date, a 'war room' was established equipped with the best of technology so as to closely and in real-time follow the progress of the integration process on a row of plasma screens that presented the integration process data (Coleman – White, 1998).

Nevertheless, we know that the merger was a complete failure. One of the main reasons of the merger failure and the dissolution of the partnership in 2007 was the difficulty that derived from the great cultural gap between the two organizations, which caused a cultural clash that harmed the ability to perform an effective integration. Misunderstandings between the Germans and the Americans often occurred because of differences in communication styles, planning and decision-making processes, negotiation strategies, and leadership practices. These business differences mirrored deeper differences in the societal values of the USA and Germany.

Chrysler had a reputation for having a more free-wheeling, open culture, in contrast with the more traditional, top-down management style practiced at Daimler. Daimler-Benz was synonymous with words like conservative, efficient, and safe. Chrysler, on the other hand, was known as daring, diverse, and creative. In fact, these cultural differences in many ways were the foundation for the mutual attraction between the two companies. The Germans admired the entrepreneurial spirit and innovative thinking of the Chrysler team, while Chrysler folks respected the methodological engineering savvy of the Germans (Shelton, Hall, and Darling, 2003). Based on the above observations, it is clear that they didn't just make cars differently; they lived in different worlds (Badrtalei – Bates, 2007).

In the same research that examined the integration process from the aspect of the organizational culture, it became clear that no one took the time to identify shared values – superordinate values that could transcend the cultural differences. Without such a value base, it was impossible to identify a core purpose and create a win-win vision for cultural integration. (Shelton – Hall – Darling, 2003).

The enthusiasm and desire to perform the integration as fast as possible caused the deficient treatment of the 'soft' parameters such as organizational culture, which takes time to build and to adjust to a new organizational situation but is of vast importance in the success of integration.

It is hard and almost impossible to isolate the impact of the speed of integration on the merger's failure and it is also hard to know what would have happened if the integration had been performed in a slower and more controlled manner. However, many researchers agree that if more time had been given to the integration, then this would have promoted the development of trust between the managers and workers on both sides and have facilitated the prevention of the cultural clash or at least would have significantly lessened it. This example illustrates the dilemma of speed of integration, especially in acquisitions where the integration process is very complicated.

Conclusion

The recent surge of M&A in a variety of industries presents the senior managers of the firms with unique and tremendous challenges regarding post-acquisition integration approach selection and determination of the speed of integration. Recent literature indicates that the growth in M&A activity, the volume of the capital involved, and the pervasiveness of M&A, stands in sharp contrast to the high rate of failure.

A recent review of the M&A literature concludes that while past research has suggested important outcomes, it has not kept pace with the increasing globalization and popularity of M&A (Shimizu et al., 2004).

The speed of the integration has a certain impact on the success of M&As, an impact that changes depending on the combination of a number of variables such as the main reason (goal) of the acquisition, the type of acquisition (domestic or cross border, horizontal or vertical), the characteristics of the companies involved in the acquisition (the acquirer and acquired), and the selected integration approach.

The speed of integration is not only an issue of decision but also of what happens in actuality in the process of the implementation of the chosen integration approach and integration depth. It is possible that in actuality the speed of integration is higher or lower than the planned speed and thus it is necessary to base on the measurement of the integration speed in actuality and not to base on the speed planned at the beginning of the process.

To summarize, the speed of integration is influenced by many constraints, and apparently, there is no right speed at which to perform the integration process, a speed appropriate for all the cases. Therefore, every acquirer has to adjust the optimal speed to the specific acquisition. However, it is important to attain 'early victories', in other words, the first fruits that will indicate the success of the process, so as to instill confidence into the employees that they are partners in a correct strategic process that will lead to improvement in the future, both on the company and on the personal level.

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