‘Mergers and acquisitions:
Identification and implementation of the ideal post-acquisition management style for a successful M&A in the financial services sector.’

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Abstract:

This paper provides an analysis on the post-acquisition management (integration) process, as a crucial aspect in the area of Mergers and Acquisitions (M&As) within the corporate world. Mainly we focus in the banking sector. The topic will be discussed in the context of providing the latest developments in the sector, the reasons leading to adopting M&As strategies, as well as the main reasons of failure in the post-acquisition phase. The focus will be on the post-acquisition integration and management
implementation. The author will recognize the question under investigation and propose future steps taken by himself in the research.

1. Introduction:

Mergers and Acquisitions have historically played a crucial role in domestic and international markets, being one of the most important methods of strategic expansion and growth for the corporations all over the globe. In the 1980s the number of merger and acquisitions activities exceeded 22,000 deals, valued more than $ 955 billion (Pablo, 1994).
Mergers and Acquisitions continue to be a highly popular form of corporate development. In 2004, 30,000 acquisitions were completed globally, equivalent to one transaction every 18 minutes. The total value of these acquisitions was $1,900 billion, exceeding the GDP of several large countries.

(Cartwright and Schoenberg, p: S1)

For the past twenty years and according to the World Investment Report (2005), leading multinational enterprises (MNEs) in 2003 on average operated with 50% of their employees, assets, and sales outside their home counties. (Hitt et al., 2006). Companies based in EM (Emerging Markets) countries reached 12% or $849 billions of total foreign Direct Investments (FDI) in 2002. (Hoskisson et al. cited Hitt et al., 2006).

International diversification according to Fouraker and Stopford (cited Hitt et al., 2006) is the result of the international business activity that a company is having. It provides an alternative risk-reduction tool and also all of the followings:

- Economies of scale.
- Access to new resources.
- Cost reduction.
- Innovation.
- New products.
- Knowledge acquisition.
- Performance improvements.

(Hitt et al. cited Hitt et al., Journal of Management, 2006).
Today, many of the biggest corporations in terms of market capitalization and market share are the result of extensive and successive mergers and acquisitions (i.e. General Electric etc). Recently in the European Union, there has been an increase in the number of M&A activities, particularly in the Financial Services sector. During 1997-98, 203 bank mergers and acquisitions took place in the Euro Area.

Some of the most important transactions in terms of value are the following:

- Union Bank of Switzerland and Swiss Bank (Switzerland, 1997).
- Banque Nationale de Paris (BND) and Banque Paribas (France, 1998).
- Hypo bank and Bayerische Vereinsbank (Germany, 1998).
- Royal Bank of Scotland (RBS) and National Westminster (NatWest)(UK, 2000).

In appendix (tables 2 and 3) recent developments are being provided.

However, according to empirical evidence and research conducted on the success of the M&As, more than 50% of them fail. According to a survey conducted by the Boston Consulting Group (BCG, 2004), one of the main reasons for the failure is the poor performance of the post-acquisition integration process. A merger or an acquisition can be divided into 3 different but interlinked stages/phases. These are the following:

1. Pre-Merger/Acquisition.
2. Due Diligence and deal agreement.
3. Post-Merger/Acquisition phase.

Empirical evidence suggest that much of attention is given to the deal realization, but too little to the post-acquisition management phase (Table1).

2. The problem under investigation why it must be solved:

The post-merger/acquisition management phase is very crucial for the successful completion of the acquisition. However, many of the M&As fail because of lack of knowledge of the importance of the post-acquisition management (Boston Consulting Group, cited Zollo 2000:p.204). A failure of a merger or an acquisition can be catastrophic for the financial solvency of the corporation, for the shareholders, the counter parties (suppliers, customers, creditors, and debtors), the economic system and the society as a whole, depending on the size of the corporation. On the contrary, a successful merger or acquisition can significantly improve both acquired and acquirer’s financial condition, and help in the increase of growth and size.

From the aforementioned, we draw the conclusion that the role of the post-acquisition management is of a vital importance for both profit and non-profit organizations.
3. M&As failure during the post-acquisition phase:

In a survey of CEOs conducted by Boston Consulting Group (cited Zollo 2000:p.204) the most important reasons for failure were the following:

1. Poor Performance of post-acquisition integration process.
2. Wrong choice of the acquisition candidate.
3. Over priced acquisition.

Zollo (2000) continues by arguing that part of the failure is linked to the lack of understanding of the importance of the integration. Integration is a complex process and each manager has a different way of interpreting the difficulties in each situation. The level of difference in the integration process is related to the characteristics of the merger or acquisition. Each merger or acquisition has distinct difficulties and different strategic synergies and priorities.

One of the biggest problems in the integration process is the high level of interdependence and interlinkage of every single task. This makes the integration management a very complex and critical process for the success of the M&A (Zollo, 2000).

4. Literature Review:
As we have mentioned in the introduction section, empirical evidence support that a large number of M&As fail due to lack of attention and knowledge in the post-acquisition management and integration process. In the literature review we describe and analyze the four different acquisition styles that exist and have been used in the post-acquisition integration phase.

4.1. Post-Acquisition Integration Styles:

Each acquisition is a unique event with different priorities, strategic needs and potential value creation propositions. Thus, according to the aforementioned factors, some acquisitions ‘have a high need for strategic independence and a low need for organizational autonomy’ (Haseslagh and Jemison, 1990, cited De wit 2004:p.337). This type of integration approach is called Absorption. On the other side, acquisition with low strategic interdependence and high need for organizational autonomy is called Preservation. Acquisitions that have both characteristics at a high degree are called Symbiosis (Ibid, p: 337).

Jemison and Sitkin (1986, cited Very and Schweiger, 2001:p.12) concluded that there are many factors that can have a negative impact on the acquisition performance. They noted that poor management and planning in the pre-acquisition phase creates
difficulties in the decision making process for the integration phase. The pre-acquisition planning should involve the post-acquisition integration style.

Angwin (2000), based on Haspeslagh and Jemison’s model, came up with a slightly different version and terminology of the post-acquisition styles. Angwin (2000) says that the post-acquisition style has a strong impact on the strategic and organizational fit. The post-acquisition style depends on the type of acquisition and the size of the two companies.

Figure

<table>
<thead>
<tr>
<th>Acquisition’s strategic independence</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interaction</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td></td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Isolate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintain</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Subjugate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaborate</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


4.2. Characteristics of the four dominant styles of acquisition:

Isolate: The main characteristic of this acquisition style is that, in most cases, the acquired company is in a poor financial condition. The aim is to restore a financially healthy condition and, then, either to incorporate it in the acquirer or sell the business. In most cases the post-acquisition phase is rapid and the acquired company stays in isolation.
from the acquirer until financial health is re-established. ‘Isolate’ acquisitions involve high risk but can be very successful, as well. (Angwin, 2000).

Maintain: In many cases, Maintain acquisition are applied in unrelated diversification strategic takeovers. Acquirers ‘try to learn from the acquired company’s achievements’ (Angwin, 2000:p.48). Value is being created ‘by the parent company encouraging greater professionals and positively influencing the ambition of the management group’ (Angwin, 2000:p.48).

In contradiction with the isolate acquisition style, the post-acquisition is gentle and takes years to be completed (Angwin, 2000).

Subjugate: This type of acquisition is often the application of a related diversification strategy. Both companies are in the same business and the acquisition will create economies of scale and scope (Angwin, 2000). The post-acquisition phase is complex and thorough in all corporate levels. Contrary to the Maintain style acquisitions Subjugate ‘occurs quickly and bring rapid results’ (Angwin, 2000:p.48).

According to Ramaswamy (1997),

“One can argue that mergers between firms emphasizing similar strategic characteristics will result in positive performance outcomes”.

(Ramaswamy, 1997:p.701).
Collaborate: In Collaborate acquisitions, there are two different stages in the post acquisition phase. In the beginning, the acquired company maintains its independence. However, gradually ‘future projects and arrangements show joint efforts for the benefit of the group’ (Angwin, 2000:p.48). This type of acquisition has an increased level of risk and often is complex and difficult to be implemented (Angwin, 2000).

To summarize, key points from the conclusions drawn by Angwin (2000:p.51) are provided.

‘The appropriate integration style will be determined by the key decisions on:

1. How value is to be created from the acquisition.
2. The importance of maintaining the capability configuration of the acquired company.
3. Value is created by the interaction of capabilities between the two companies.
4. Acquired company’s capabilities are protected through high strategic independence from the acquirer.’

4.3. Variables with impact on the Post Acquisition performance:

According to Halebian et.al (2006), some of the variables with big impact on the overall acquisition performance, based on a sample of US banking industry acquisitions from 1988 to 2001, are:
1. Increased acquisition experience by a firm leads to increased acquisitions transactions.

2. Positive effects of acquisition experience and strong acquisition performance will lead to increased acquisitions transactions.

3. The 2 above provide a firm the opportunity to improve its existing routines and thus make the firm a better acquirer.


4.4. Private versus Public and Domestic versus International:

Further to the aforementioned, one must add the impact on the performance that is steaming from the classification of the merger or the acquisition. In example, according to Campa and Hernando (2004), in mergers and acquisitions in the EU from 1998-2000 deals involving corporations previously or currently publicly held, underperformed, due to heavy regulation. Evenmore, this becomes more negative when the deal involves cross boarders acquisition because of the low expectations of successful completion due to cultural, legal and transaction barriers (Ibid, p.47).

However, foreign acquisitions have been proved by empirical evidence that can be more successful if there is an increased level of autonomy. In research conducted in Hungary and East Germany, Lieb-Doczy, (2001) (cited Meyer and Lieb-Doczy, 2003, p.460) suggests,
“that with some degree of managerial autonomy and access to complementary resources, firms perform better in terms of generating innovative solutions for the local context and the new capabilities for use in the investor’s worldwide operations”.

Use of local assets, culture and habits increase the need of autonomy.

4.5. Impediments to post-acquisition integration:

According to Vaara (2003) there are 4 variables in the internal decision-making process of the corporate hierarchy, which should be valued carefully in the post-acquisition integration.

1. Roles’ conflicts of the different units.
2. Integration process can be negatively influenced by cultural differences and clashes.
3. In successfully operating corporations, integration issues can easily “lost” in routine decision-making process.
4. Over time, specific integration issues can turned to politicized questions leading to confrontations among various units within the organization.

4.6. *Complex Cultural Integration-Cultural Leadership:*

Mergers and Acquisitions, domestic or cross boarders, related or unrelated are being influenced heavily by the cultural particularities. Academic studies raise special attention to the cultural differences in organizations involved in M&As activities leading to major organizational problems. The above is very important when it comes to Cross-boarder acquisitions and few more, link, the post acquisition financial performance by measuring the cultural differences. The greater the cultural differences, the bigger the integration problems, lower the market share and poorer the financial performance (Vaara, 2003).

Despite the increased number of deals in M&As globally, and the recognized importance of cultural aspects on the integration process,

“The cultural literature suggests that by the nature of its stability, organizational culture, once established, it is difficult to change” (Langal-Fox and Tan, 1996, cited Bligh, 2006:p.397). Taking into account the complexity of cultural integration in the post merger integration process, we could draw the conclusion that this task is very critical on the overall success of an integration procedure (Ibid, p.:398). According to Bligh (2006, p: 399), evidence suggest that “a theoretically informed model of leadership and culture change is necessary” to build common ground between theories of cultural integration on the one side and existing cultural frameworks on the other hand. And Bligh(2006) continuous by stating that poor records of success of given top-down interventions stress the need for an alternative model for leading post-merger cultural integration. Empirical
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evidence prove that a big number of mergers and acquisitions fail due to a not successful management of cultural issues. Cultural barriers have a big impact on the merger integration and its successful completion. Applying culture audit methods, increase awareness, help managers to acquire knowledge and work in achieving consensus quickly (Huang and Klainer, 2004). Furthermore, clear Leadership and directions in mergers and acquisitions process help in succeeding major changes and establish a clear vision (Ibid, p: 58).

5. Methodology:

The proposed acquisition style by the author will be a combination of ‘hard’ and ‘soft’ issues; namely, it will take into consideration cultural aspects and maximization of shareholders’ value criteria. Furthermore, the proposed acquisition style co-estimated the following crucial factors during the integration process: Speed of the acquisition integration and risk management during the transition period linked with performance.

The aim will be to propose a new post-acquisition style more adjustable and result oriented depending on the special characteristics of the acquisition (i.e. Domestic or Cross Board or Related versus Unrelated etc).

Questionnaires and interviews will be conducted with experts in the area of post-acquisition integration management (Delphic approach) and, also, a variety of secondary sources and data will be used for the research. The ones to be interviewed will be managers in organizations and institutions with substantial activities in the area of
mergers and acquisitions and, also, with consultants, who have been actively involved in
the post-acquisition integration processes. These interviews will be “semi-structured
thematic interviews” and will follow a story telling approach in an attempt to let the
interviewer to present his or her view on the integration process. The author’s interview
strategy could be described as “active” or “creative” (Vaara, 2003:p.866-867).
Furthermore, case studies of successfully completed mergers and acquisitions will be
worked out in order to further reinforce the research conclusions. In addition, trade union
representatives will be interviewed which will allow the author to observe multiple
perspectives on post-acquisition integration (Meyer and Lieb-Doczy, 2003).

Continues cross-checking of empirical material (Vaara, 2003) and academic
research will be part of monitoring and analyzing process in order to come up with
accurate conclusion and contribution.

6. APPENDICES:

Table 1:

<table>
<thead>
<tr>
<th>Consultancy</th>
<th>Date</th>
<th>Method</th>
<th>Failure Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>1973</td>
<td>400 postal questionnaires</td>
<td>49</td>
</tr>
<tr>
<td>International</td>
<td>1978</td>
<td>150 postal questionnaires</td>
<td>48-56</td>
</tr>
<tr>
<td>Coopers and</td>
<td>1992</td>
<td>Qualitative in depth</td>
<td>54</td>
</tr>
<tr>
<td>Data Source</td>
<td>Year</td>
<td>Description</td>
<td>Result</td>
</tr>
<tr>
<td>----------------------</td>
<td>------</td>
<td>-----------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Lybrand</td>
<td></td>
<td>interviews with senior executives in the UK’s top 100 companies</td>
<td></td>
</tr>
<tr>
<td>Coopers and Lybrand</td>
<td>1996</td>
<td>125 companies. Low revenues, cash flow, probability</td>
<td>66</td>
</tr>
<tr>
<td>Mercer MC</td>
<td>1995</td>
<td>150 companies. Poor returns to shareholders after three years</td>
<td>50</td>
</tr>
<tr>
<td>Mercer MC</td>
<td>1997</td>
<td>300 companies. Below average (industry sector) returns to shareholders after three years</td>
<td>57</td>
</tr>
<tr>
<td>McKinsey</td>
<td>1995</td>
<td>Examined 58 acquisitions. Success was measured as financial return exceeding the cost of capital</td>
<td>58.6</td>
</tr>
</tbody>
</table>

(Angwin, 2000:p.4)
### Top 10 Banking Mergers in the terms of value

<table>
<thead>
<tr>
<th>Acquiring Bank</th>
<th>Acquired Bank</th>
<th>Cost in billion $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barclays</td>
<td>ABN AMRO</td>
<td>90,85</td>
</tr>
<tr>
<td></td>
<td></td>
<td>23/04/2007</td>
</tr>
<tr>
<td>Travelers</td>
<td>Citicorp</td>
<td>72,56</td>
</tr>
<tr>
<td></td>
<td></td>
<td>08/10/1998</td>
</tr>
<tr>
<td>Nations Bank</td>
<td>BankAmerica</td>
<td>61,63</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30/09/1998</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>Bank One</td>
<td>58,76</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14/01/2004</td>
</tr>
<tr>
<td>Bank of America</td>
<td>Fleet Boston</td>
<td>49,26</td>
</tr>
<tr>
<td></td>
<td></td>
<td>27/10/2003</td>
</tr>
<tr>
<td>Mitsubishi Financial</td>
<td>UFJ</td>
<td>41,43</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20/08/1999</td>
</tr>
<tr>
<td>Fuji Bank</td>
<td>Dai-Ichi Kangyo</td>
<td>40,01</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29/11/1999</td>
</tr>
<tr>
<td>Royal Bank of Scotland</td>
<td>National Westminster</td>
<td>38,41</td>
</tr>
<tr>
<td></td>
<td></td>
<td>01/01/2007</td>
</tr>
<tr>
<td>Banca Intesa</td>
<td>SanPaolo IMI</td>
<td>37,62</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Source: Financial Newspaper, Imerisia, 24/04/07)

### Table 3:

#### TOP 10 Banking candidates for M&As

<table>
<thead>
<tr>
<th>BANK</th>
<th>Market Cap. in Billions $</th>
<th>P/E ratio for 2007</th>
<th>P/BV ratio</th>
<th>Performance of Capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerzbank</td>
<td>31,9</td>
<td>13,7</td>
<td>1,5</td>
<td>11,7</td>
</tr>
<tr>
<td>Bradford &amp; Bingley</td>
<td>5,7</td>
<td>10,6</td>
<td>1,9</td>
<td>18,1</td>
</tr>
<tr>
<td>Alliance Leicester</td>
<td>10,0</td>
<td>12,1</td>
<td>2,3</td>
<td>19,9</td>
</tr>
<tr>
<td>Postbank</td>
<td>14,7</td>
<td>15,6</td>
<td>2,0</td>
<td>13,1</td>
</tr>
<tr>
<td>Capitalia</td>
<td>23,8</td>
<td>15,8</td>
<td>2,1</td>
<td>13,8</td>
</tr>
<tr>
<td>Swedbank</td>
<td>19,1</td>
<td>10,8</td>
<td>1,9</td>
<td>18,5</td>
</tr>
<tr>
<td>Banif SGPS</td>
<td>2,2</td>
<td>23,7</td>
<td>2,9</td>
<td>19,6</td>
</tr>
<tr>
<td>BCP</td>
<td>14,4</td>
<td>12,4</td>
<td>2,6</td>
<td>18,5</td>
</tr>
<tr>
<td>SEB</td>
<td>23,5</td>
<td>12,5</td>
<td>2,1</td>
<td>20,1</td>
</tr>
<tr>
<td>ABN AMRO</td>
<td>89,6</td>
<td>15,3</td>
<td>2,4</td>
<td>13,2</td>
</tr>
</tbody>
</table>

(Source: UBS cited [www.capital.gr](http://www.capital.gr), 23/05/07)
6.1. Appendix of Definitions:

Merger: ‘Two or more companies joining together. The new entity can be at holding level or at company level. A merger is recorded on the date of the economic decision (formally agreed) even if the legal issues have not been fully finalized. If subsequent disputes, Legal issues or lack of supervisory approval were to interfere with a completion of the merger, it is held not to have been recorded (ECB, 2000:p. 34)’.

Acquisitions: ‘A company buying shares in another company to achieve may be of a minority or of a majority of the shares in the acquired company. An acquisition is recorded on the date of the economic decision (formally agreed) even if the legal issues have not been fully finalized. If subsequent disputes, legal issues or a lack of supervisory approval were to interfere with a completion of the acquisition, it is held not to have been recorded (ECB, 2000:p. 34)’.

Consolidation: ‘A merger or an acquisition-whether within a sector of the financial industry or across sectors-that reduces the number of operational institutions/groups (ECB, 2000:p. 34)’.

Sectors of the financial industry: ‘Credit institutions, insurance companies, asset management companies, investment companies, undertakings for collective investment in transferable securities (UCITS) and other financial companies (ECB, 2000:p.34)’.
Categories of Banks: ‘Commercial banks, savings banks and co-operative banks (ECB, 2000:p.34)’.

Related Businesses: ‘Businesses are said to be related where there are competitively valuable relationships among the activities comprising their respective value chains (Thompson and Strickland, 2003:p. 295)’.

Unrelated Businesses: ‘Businesses are said to be unrelated when the activities comprising their respective value chains are so dissimilar that no real potential exists to transfer skills or technology from one business to another or to combine similar activities and reduce costs or to otherwise produce competitively valuable benefits from operating under a common corporate umbrella (Thompson and Strickland, 2003:p. 295)’.

7. References:


Financial Newspaper, Imerisia, 24/04/07.


• UBS cited www.capital.gr , 23/05/07.

