

3 Matching Acquisition Policy and Integration Style

Wilfried Krüger and Günter Müller-Stewens

1. INTRODUCTION: HIGH FAILURE RATES REQUIRE MORE PROFESSIONALISM IN POST-ACQUISITION MANAGEMENT (PAM)

Few strategies are as risky as acquisition strategies. The failure rates are tremendous. Most experts agree that one main reason for this is the buyers' lack of competence to integrate their targets. To cope with this problem, corporate strategists have to look for the right linkage between acquisition policy and the way of integrating the target. It hardly makes sense to handle the integration tasks in isolation from the whole deal-making process, as most companies do. A lot of mistakes made in the first part(s) of the transaction process cannot be repaired in the integration phase.

In this article we are trying to develop a 'toolbox', which can help to handle this linkage.¹ This is done in a prescriptive way, based on practical experiences and a lot of interviews with experts. So, this chapter has a pre-scientific status and we hope that more empirical work will follow.

The integration of a target company is, for us, the last step of three main groups of activities within the acquisition process, as shown in Figure 3.1. Neither can these steps be exactly segregated from each other (this is indicated by overlapping boxes), nor is there any definite beginning or ending of the process as a whole. The first phase is the development of the acquisition strategy, which is, as well, part of a continuous process of strategic planning. Here, it is necessary to examine why the management are looking for a new business and how they are planning to realise it. Sometimes there will, at first, be an idea of a specific new business and then the company will start to search for the right way to enter it. In other situations, such as where a company with strong financial reserves is in search of a profitable

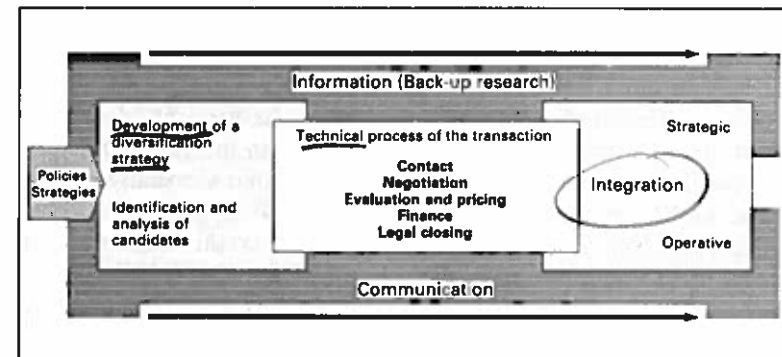


FIGURE 3.1 The Acquisition Process

investment, the management might first consider acquiring a company and then start looking for the right business and potential candidates. The second phase mentioned in Figure 3.1 contains the more technical aspects of an acquisition, such as bargaining, target evaluation etc.

The last phase relates to the time after the deal. Its success depends on its preparation in the first and second phases. If companies are developing acquisition strategies they can be expected to anticipate the aftermath and to analyse potential problems in the integration phase. This sounds logical, but in reality it is not common at all. Because of the dominance of technical aspects in the time before the deal is closed (tax problems, contracting etc.) people don't pay enough attention to its realisation. The target is evaluated in terms of synergies. But to realise the entrepreneurial vision means to solve the organisational problems of integration. Naturally this is not only a structural problem of the organisation. It further includes problems of symbolic interaction, of political behaviour and of human resources management. The key to success seems to be a multicontextual approach to integration.² In this sense, it is obvious that information and communication are two key success factors accompanying the whole acquisition process.

If we take a look in the German M&A literature, we will notice the same 'integration-lack' as in practice. Most of the research is done into the 'technical aspects' of the transaction, specifically into the problem of target evaluation.³ In the strategic management literature we can find some work done on diversification strategy.⁴ But there is

almost no research done into PAM⁵ and the communication of the (eventual) transaction before and after the deal.

From an empirical point of view it seems to be essential that we should professionalise target integration. At present, every year about 3000 German companies are involved in merger and acquisition activities.⁶ Comparing this with the fact that Germany has only about 17,000 companies with more than DM 25 million sales per annum, it becomes obvious that an economy like this cannot afford a failure rate of acquisitions of more than 50 per cent.⁷ And it cannot afford to ignore this part of a transaction, which usually doubles the cost of a take-over – in successful cases.

A first step in this direction could be a conceptional linkage between acquisition policy and integration.

We try to support our argument with examples, mostly from the German market for corporate control. The psychology of this market is totally different from the M&A business in the United States or in Great Britain. This is caused mainly by a different attitude of the entrepreneur towards his company. The German entrepreneur is still much more like a 'patriarch' to his company ('Optimise stakeholder interest!') than a level-headed calculating investor ('Maximise shareholder value!'). The majority of medium-size German companies, with annual sales between DM 1 million and DM 50 million (which is more than 300,000 firms with approximately one-third of the total annual sales of all West-German companies), are privately owned – often over several generations. Thus, it may be really difficult for a foreign buyer to understand the integration hurdles of German targets.

The examples will help to illustrate the classifications, and to create prototypes. But in reality a company's behaviour is not as easy to classify as is done here. It may vary from transaction to transaction, or from one top management team to another. Nevertheless, we believe that there is a stable core of company attitudes in mergers and acquisitions.

In Table 3.1 we give a short survey of the German deals and the involved companies mentioned in this chapter.

TABLE 3.1 *Background of the German Buyer and Target Companies*

Company	Business description	Sales	Earnings after taxes	Employees	Deal memorandum
(DM in million)					
BEAG Berliner Brau u. Erfrischungs- getränke AG	Second largest producer of beverages in former East Germany: 3.15 bn. litres, 55% beer, 45% non-alcoholic beverages (1989)	n.a.	n.a.	2,000	Oct. 1990: Target of Brau und Brunnen AG which invests about DM 70 mill. in production and quality control during 1991
Brau und Brunnen AG	Largest West German producer of beverages (9.4 bn. litres in 1989)	1,515 (1990) 1,170 (1989)	15.2	6,812 4,893	Oct. 1990: Take-over of East Berlin based BEAG for appr. DM 100 mill. to achieve leadership in the reunified German market
Daimler Benz AG	Largest German corporation, in change from automobile producer to high-tech-conglomerate (cars, trucks, aerospace, defence technologies, services), acquired more than 150 companies since 1985; various strat. alliances	85,500 (1990) 76,392 (1989)	1,795 6,809	376,785 368,226	Dec. 1985: take-over of MTU GmbH; Nov. 1985: 57.5% stake in Dornier GmbH; Nov. 1989: 62.5% stake in MBB; strong efforts to gain industrial leadership in restructuring the German aerospace industry
Dornier GmbH	High-tech producer esp. in aerospace and defence technology equipment with strong ties to family-owners, most of which were famous engineers	2,827 (1990) 2,204 (1989)	-36.9 -88	10,931 10,247	Nov. 1985: 57.5% are sold to Daimler Benz AG (since 1988: 87.5% of the voting rights) which gains industrial leadership; rumours in the family about remaining influence
Franz Haniel & Cie. GmbH	Family-owned, diversified conglomerate ('standardised services') with historical roots in transportation; typical 'strategic acquirer', recently active in expanding their international wholesale business (drugs, food)	15,100 (1990) 13,800 (1989)	218 270	27,598 23,788	Jan. 1990: Joint venture Thyssen Haniel Logistic GmbH with Thyssen Handelsunion AG (which holds 2/3 of the stakes); Haniel brought in all transportation activities except their express-service Trans-o-flex AG. The JV has 7000 employees worldwide and DM 3 bn. sales in 1990/91

(continued on page 54)

TABLE 3.1 continued

Company	Business description	Sales	Earnings after taxes	Employees	Deal memorandum
(DM in million)					
MBB Messerschmitt-Bölkow-Blohm GmbH	Development, production and support of aerospace (civil and defence) products; Airbus components	4,066 (1990) 5,796 (1989)	60.0 100.1	20,911 23,938	Nov. 1989: 62.9% are sold to Daimler Benz AG, esp. by state authorities; present stake is 64.9%, but 70.01% of all voting rights
MTU Motoren und Turbinen Union GmbH	Development and production of turbines and diesel engines; founded 1934 as BMW Aircraft Engines	3,602 (1990) 3,659 (1989)	60.7 40.4	17,524 17,654	Since 1985, Daimler Benz has acquired 100% of the Munich facility, which holds 86% of the Friedrichshafen facility; a minority is still held by the former family owners
Nixdorf Computer AG	Supplier of hard- and software-solutions for larger clients, e.g. banking, retailing, local and national authorities, industry-specific application for various medium-sized companies; struggled in 1988	3,428 (Jan./Sept. 1990) 5,261 (1989)	-800 -1,069	25,155 28,525	April 1990: Siemens AG acquires a majority stake with agreement of the national cartel office; after a rise in share capital in Oct. 1990, Siemens holds 78%; Nixdorf becomes a part of the SNI Siemens Nixdorf Informationssysteme AG
Otto Versand GmbH & Co.	Largest German mail-order company with worldwide presence due to various acquisitions; wholesale activities; vertically integrated	14,358 (1989/90) 13,341 (1988/89)	142 139	32,081 30,926	1982: take-over of Spiegel Inc., 4th largest US mail-order company, which is sold back to the owners in 1984 according to Unitary Texas Law and becomes a sister-company of Otto
Siemens AG	Widely diversified producer of electric components and equipment; 3rd largest German company; investment in acquisitions and alliances: DM 4 bn. (1988/89)	63,185 (1989/90) 61,128 (1988/89)	1,668 1,577	373,000 365,000	Sept. 1989: hostile take-over of the Plessey Co. together with GEC; price of approx. £2 bn, 55% is played by Siemens April 1990: majority stake in Nixdorf Computer AG (78%)

TABLE 3.1 continued

Company	Business description	Sales	Earnings after taxes	Employees	Deal memorandum
(DM in million)					
Thyssen Handelsunion AG	Diversified in trading and services (started in 1954 mainly with steel exports for the Thyssen AG), recycling activities; strategic acquirer in a phase of consolidation	14,000 (1989/90) 14,200 (1988/89)	48.1 61.6	24,322 18,541	Jan. 1990: Joint venture with Franz Haniel & Cie. GmbH; although Haniel brings in DM 1.8 of 3 bn sales, Thyssen Handelsunion takes 2/3 of the stakes and thus gains leadership in the JV
Volkswagen AG	Largest German car producer (3.1 mill. worldwide) with own leasing and finance subsidiaries; strategic focus on leadership in the European mid-price-markets, with huge investments in take-overs and joint ventures	68,061 (1990) 65,352 (1989)	1,086 1,038	268,700 256,300	1986-1990: take-over of 99.9% of Seat; Oct. 1990: agreement with the 'Treuhanderanstalt' to produce at the facilities of former East-German 'Ifa Plw AG'; no acquisition appropriate; Dec. 1990: wins take-over battle for Czechoslovakian Skoda against Renault and Volvo; initial stake is 31% and will be increased to 70% by 1995

II. THE ACQUISITION'S BALANCE: BUSINESS BENEFITS VERSUS INTEGRATION RISKS

A firm's strategic position can be described in terms of business portfolio analyses. They demonstrate two dimensions of the internal and external strengths and weaknesses of a company as a whole or of its various businesses compared with its competitors. From this point of view, acquisitions are one option for improving the relevant portfolio position by reducing weaknesses and extending strengths.

1. The Acquisition-Policy Matrix

The problems and tasks of post-acquisition management depend, above all, on the definition of the company's acquisition policy.

Therefore it should be of some use, for theory and practice, to discuss a specific acquisition-policy matrix in order to identify the related questions.⁸ One dimension of the matrix has to demonstrate the intended degree of portfolio change, which seems to be as important as the style of target integration. These dimensions determine the extent of the challenges for PAM. The greater the change in the competitive position and the more intensive the desired degree of management of the target's operations, the more ambitious the management task in relation to the integration of the target.

The scale of the first dimension, intended positional change of the company's business portfolio by the acquisition, may be described as follows.

→ Business Penetration

The acquisition refers to the existing businesses. There is no entry into a new business (new products, new customers, new functions, new regions). The buyer has enough know-how to manage the target on his own. The result of an acquisition like this will be an improved or extended market position (penetration), e.g. an increased market share.

In 1990, in only 1551 out of 2729 cases (57 per cent) was the target company bought by a company from the same industry. An industry with a high percentage of these horizontal acquisitions is chemistry (112 out of 131 cases: 86 per cent). An example of a penetration strategy in the German computer industry is the acquisition of a 78 per cent stake of Nixdorf AG by Siemens AG for DM 500 million. Siemens is looking for economies of scale in this industry; the transaction is also an answer to a worldwide process of concentration in computer manufacturing – perhaps one reason why the German antitrust authority permitted it.

More than one year after the deal, Siemens still had tremendous problems with the Nixdorf integration and the costs of it were increasing. The CEO of Siemens said that they had undervalued the integration task.

Quaker Oats, US pet food and toys producer, bought Anderson Clayton & Co. in 1986 to get its Gaines food division, a leading pet food maker. They tried to achieve critical mass and became no. 2 in pet food.

→ Business Extension

The company is entering a new business, which is in the same industry, in order to serve a new customer group. The new business is related to the existing business. There is some know-how applicable to the target, but other aspects of the target's business remain unknown. Usually, an acquisition like this is part of a growth strategy. Perhaps the existing business portfolio incorporates current imbalances. Often the new business has to complete or to substitute for an existing one trapped in a declining or stagnating market segment.

In 1990, the German car producer Volkswagen, instead of the French company Renault, succeeded in buying the Czechoslovakian producer Skoda. This will allow Volkswagen to build up a strong position in Eastern European markets.

→ Industry Diversification

A company tries to enter a new industry wherein the new businesses are not related to the existing ones. The management of the acquiring company does not know the 'rules of the game' of the target industry. There is no own experience applicable for running the new company, so the buyer is highly dependent on external know-how.

By acquiring the German companies MBB (defence, aircraft and space industry), MTU (aircraft industry), and Dornier (aircraft industry), Daimler Benz not only became the largest German industrial corporation but also entered the promising space and aircraft industries in order to improve its position in the (perhaps declining) car industry by transferring the acquired know-how in electronics to the development of new cars and transportation systems.

Now Daimler Benz is trying to integrate the acquired companies (MBB, TST, Dornier, MTU) under the sub-holding, DASA Deutsche Aerospace AG (see Figure 3.2). DASA reorganised the businesses of its subsidiary companies in 12 – partly company-overlapping – product divisions, which means that in future some of these companies will no longer exist under their former name. But it is important to know that MBB and Dornier are companies with a strong corporate identity, which is linked with the myths surrounding the founder-families, Bölkow and Dornier, which are

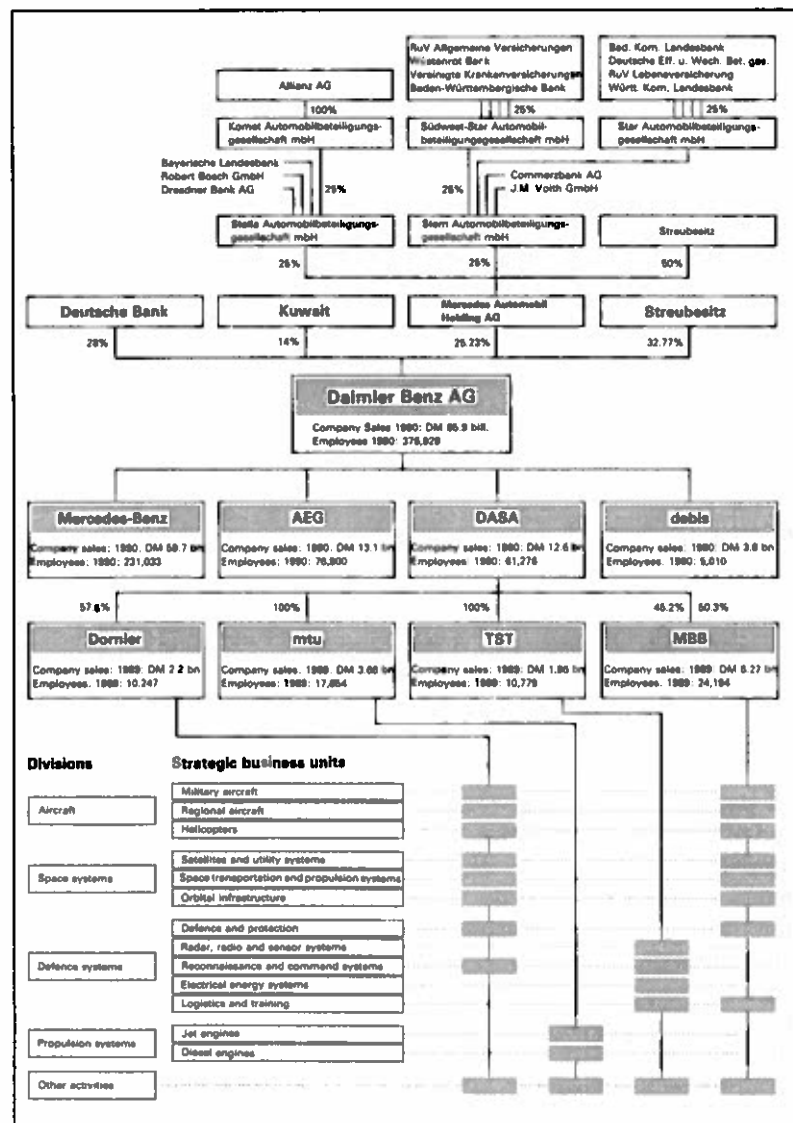


FIGURE 3.2 Corporate Structure and Ownership Structure of Daimler Benz AG and Deutsche Aerospace AG

still minority-shareholders in their companies. So the DASA case is perhaps the most exciting integration challenge in Germany (except for the integration of East Germany).

Additionally, it should be remarked that Daimler Benz is one of the most active German conglomerates in the market for corporate control. It was involved in more than 130 deals in the six years to 1992. (About 10 per cent of all German transactions are initiated by the 17 most active buyers.)

The Japanese electronics giant Matsushita bought MCA (USA) in 1990. Matsushita is the world's largest manufacturer of VCRs. MCA produces videocassettes, Hollywood's biggest single source of revenue. Now Matsushita is able to offer not only hardware to the customers but also the requisite software.

The parent company has to exert influence on the acquired firm for it to reach the acquisition's objectives. The kind and intensity of impact on the target depends not only on the intended change of competitive position but, primarily, on the specific structure and leadership style of the acquiring corporation. The scale of impact extends from considerable independence of the target to total control. This second dimension, *intended style of target integration*, may be described as follows.

→ Financial Investor

The parent company primarily focuses on portfolio management and fund allocation, on investment and divestment policy. The intended amount of control, therefore, is restricted and relies, above all, on financial ratios such as ROI (return on investment). The main task of the buyer's organisation could be a maximisation of the shareholder value.⁹ Usually there is no change in the target's management team, which is still allowed to run the company quite independently. Very often such parent companies are organised as holdings. As long as the holding is not involved in the development of strategies and their implementation, the integration task is not too difficult at all.

Franz Haniel & Cie GmbH is one of the biggest merchandising and service corporations in Germany, with ten different corporate divisions (company sales in 1989: DM 13.8 billion). Not only are domestic shipping, liner shipping and freight forwarding business areas of Haniel, but also, wholesale pharmaceuticals, retail dis-

tribution of food (subsidiary in USA: Scrivner, Inc., Oklahoma), environmental protection and recycling. The ten corporate divisions are run by separate and independent corporate boards. The management board of Haniel concentrates, for example, in corporate banking. The basic structure of Haniel may thus be described as a finance holding. Haniel is family-owned, but none of the family members is in any management function at Haniel. For handling the principal-agent conflict, Haniel uses the shareholder value approach.

In the six years to 1992 Haniel wound up more than 30 transactions. In 1990 there was a merger between the carrier businesses of Haniel and Thyssen Handelsunion AG, to form the biggest national competitor in this industry.

→ Strategic Controller

The acquirer has specific strategic objectives (e.g. to reach a technological position in an industry, a market share in a region, or a distribution network). These companies integrate acquired firms by committing the target's management to a common corporate policy, or by replacing managers, but without having a direct impact on the operative management. The management merely controls the realisation of these policies. An option for gaining more influence is to lead the firms by means of interlocking directorates. In this configuration, members of the top management hold several directorships among subsidiaries.

Brau und Brunnen AG (BuB) is Germany's largest producer of beer, mineral waters and soft drinks. Its structure can be characterised as a management holding. The corporate management board controls the four separate business areas by a corporation-wide brand policy and a corporate competitive strategy.

After Germany's reunification, Brau und Brunnen AG bought, in October 1990, BEAG (Berliner Brau und Erfrischungsgetränke AG), one of the biggest East German breweries (2000 employees), located in and around East Berlin. The price was probably only Dm 20 million, but they needed to invest about DM 270 million. BuB chose this solution because it would have taken too much time to build up these capacities by internal development. In future times these plants will be run by an integrated management team which also manages Schultheiss, the West Berlin subsidiary of Brau und Brunnen. This integration style leads to the next type.

Operative Manager

The acquiring firm wishes to control not only the strategic orientation of the target but also the operational activities. Approaches to this procedure are highly centralised non-routine decision processes, standardised routine decisions and detailed, corporation-wide reporting and budgeting systems.

The integration style of Siemens AG tends to follow this pattern. Besides the strategic objectives of each acquisition, Siemens usually takes the operative implementation in hand as well.

In September 1989 Siemens – together with GEC – could successfully finish the DM 6 billion unfriendly take-over of Plessey Co. plc. Directly after the deal they started job rotation programmes for Plessey managers etc. Usually the target's products lose their former brand names after a short period of time. They have to be sold under the Siemens label.

Figure 3.3 demonstrates that different combinations of positional change and intended integration style vary in their potential to raise difficulties. The diversification in a new industry by an 'operative manager', for example, is a huge challenge to PAM.

2. Analysing the Requisite Synergy

Synergy effects are the core element of most acquisitions. Only a few categories are as promising as the word 'synergy'. Mentioning synergy effects is fascinating and imaginative. A brighter future seems to be within reach. In many cases synergies are used by top managers like a spell.

As the acquisition of MBB by Daimler Benz was extremely controversial in Germany, Daimler's chairman of the board, E. Reuter, again and again used a specific synergy effect for justifying the deal. He created the vision of 'the integrated technology conglomerate'. He wished to transfer know-how in electronics from aircraft and space industry to car production. Moreover, by unifying the air and space activities in one holding, the capacity of programme leadership should be achieved, a position for which each subsidiary on its own had been too weak.

In the planning stage of an acquisition or during the actual take-over the fact is often neglected that the synergy benefits hardly ever

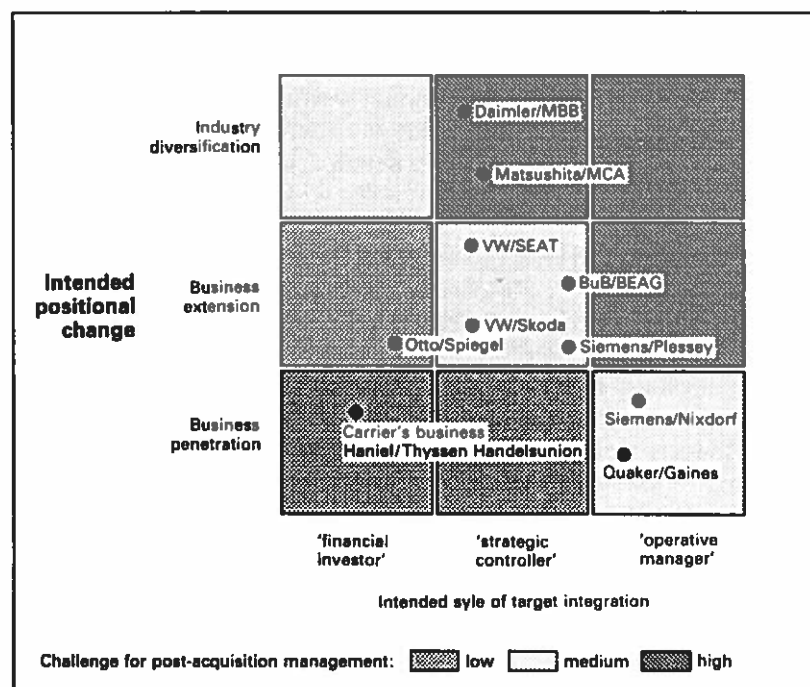


FIGURE 3.3 Acquisition Policy Matrix

appear by themselves. On the contrary, an active synergy management is required to exploit the synergy potentials. Difficulties and barriers regularly turn up.

The Dornier management and parts of the Dornier family, for instance, vehemently opposed the efforts on the part of the Daimler management aimed at integration and restructuring. The subsidiary even took legal proceedings against the parent company.

The fact that Ford and Chrysler have separated their space divisions again shows how difficult it is to apply plausible strategic ideas at the operative level.

As a consequence, the efforts to overcome synergy barriers and the costs that are related to them may even destroy synergy effects.¹⁰ In retrospect the question is raised as to whether it would not have been easier and better to have newly developed the potentials needed by

one's own efforts, that is to say, to have chosen the way which, in advance, often seems to be the more difficult. For these reasons it is extremely vital for the success of a take-over not only to calculate exactly the price of the acquisition but also to assess as precisely as possible the costs and benefits of the post-acquisition process. This includes the fact that the types of synergy have to be determined precisely. For this purpose a classification of synergy effects is suggested that is based on an *assessment of the value chains*¹¹ of the companies concerned. It is obvious that an acquisition will only be successful if the combined value chains after the acquisition already are, or at least can be made, stronger and more productive than the single value chains used to be before.¹²

Differentiated according to their significance, four types of synergy can be distinguished.

Synergy by Total Addition

The value chains of the acquiring company and the target are nearly or completely identical. Only minor changes are needed for integrating the target. These changes primarily refer to secondary activities, in order to integrate the target and its management and staff into the corporate structure and the various planning and controlling systems.

Synergy by total addition may arise from 'merging' both value chains. From a company-internal point of view it is, for example, possible to achieve overproportional cost reduction by jointly using the infrastructure. Externally, mainly the increase in influence has to be mentioned. The increase in market power or bargaining power when dealing with suppliers and banks may be greater than would be expected in the case of a mere addition of market shares.

The cumulative power of both is more than a mere addition. Later on, this may find expression in the rentability. The rentability of the whole is higher than the arithmetical average of the two partial rentabilities. Synergy by addition is the easiest form of synergy because it requires hardly any post-acquisition activity. But, even in this case, the need for an active synergy management becomes obvious.

Last but not least, synergy by addition may also have negative effects. The increase in power may, for example, lead to an increased attention on the part of competitors. This may even cause concentric countermovements.

Exactly this phenomenon was experienced by Quaker Oats. Having acquired Gaines in 1986, they became no. 2 in the pet food

sector and, simultaneously, the common target of attack for the competitors, Ralston, Colgate-Palmolive and Mars. Most of the market share Quaker Oats had won in the beginning was lost again between 1987 and 1990.

Synergy by Strengthening

Sometimes an acquisition makes sense because some elements of the 'acquired value chain' would strengthen the competitive position of the buyer. Focus is usually a value adding activity which covers a key factor for success in this business. The two value chains are not identical, but in some parts are similar. Synergies can only be used by an active combination, integration and restructuring of the former independent parts, for example, merging of sales personnel, manufacturing capacities, logistics or specific core competencies¹³ such as magnetic taping. These activities are necessary, for instance, to reach such effects as better customer services or economies of scale.

But, for realising synergies in cases like this, we have to look for possible conglomerate discounts (negative synergies) in the non-integrated parts of the value chain. For reaching positive net synergies it is – besides the integration – often indispensable to divest unsuitable parts of the acquired activities (synergies by 'streamlining' the value chains).

That is what Quaker Oats did. They bought Anderson Clayton for \$801 million. By quickly selling such businesses as salad dressing, margarine and coolers, Quaker got Gaines at a net cost of \$225 million. 'On paper the Gaines acquisition made all the sense in the world', said a former vice president of Gaines.

Synergy by Transfer

The two value chains are different but some crucial parts of one value chain are useful for, and applicable to, the other one. The purpose of the transaction is know-how transfer. This can occur in three different ways: (1) transfer from the target to the buyer, when the buyer's know-how level in a key activity of his business is lower than the level of his main competitors; (2) the reverse of (1); and (3) cross-fertilisation between both value chains.

For reaching positive net synergies the same streamlining activities have to be carried out as mentioned before.

In the mid 1980s the German mail-order house Otto Versand bought Spiegel Inc., then no. 4 in the US market. The Otto experts were the first to have a perfect system of order-acceptance by telephone and quick order-handling, which they successfully introduced, in the US, into Spiegel. Thus the customers could receive their goods after only 2–3 days instead of 3–6 weeks. With the help of acquisitions in numerous countries Otto has grown so successfully that it has advanced to be the biggest mail-order firm in the world.

Synergy by Supplement

The two value chains are completely different and located in different businesses. But there is a strategic concept behind the acquisition, which has to be realised by entering into a new business. The objective may be an extension of the business range through supplementary or complementary products or an extension of the businesses among the company's core competencies.

Reaching complementary products was the purpose of Matsushita when they bought MCA. VCRs and videocassettes are a perfect combination. Synergy effects are caused by the fact that the combined product line sells better than separate ones.

These four types of synergy can be applied to the acquisition-policy matrix of Figure 3.4. The specific acquisition policy, described in terms of the intended positional change and the intended style of target integration, determines which kind of synergy is needed primarily (Figure 3.4). Synergies by addition and strengthening we may find if no real positional change is intended and if the buyer is not a 'financial investor'. In the case of a 'financial investor' there are only synergies by transfer (mainly know-how transfer in corporate banking/finance). Another means of know-how transfer happens in cases of business extensions. Synergies by supplement can be realised if the industry diversification is motivated strategically.

Although these examples can only provide tendencies in combining synergies and acquisition purposes they could be helpful for analysing the target. The required synergy and the actual synergy which can be expected from the candidate may differ in some cases. This could indicate an imbalance in the deal. Either further capital investments or other post-acquisition efforts are needed, or the candidate should

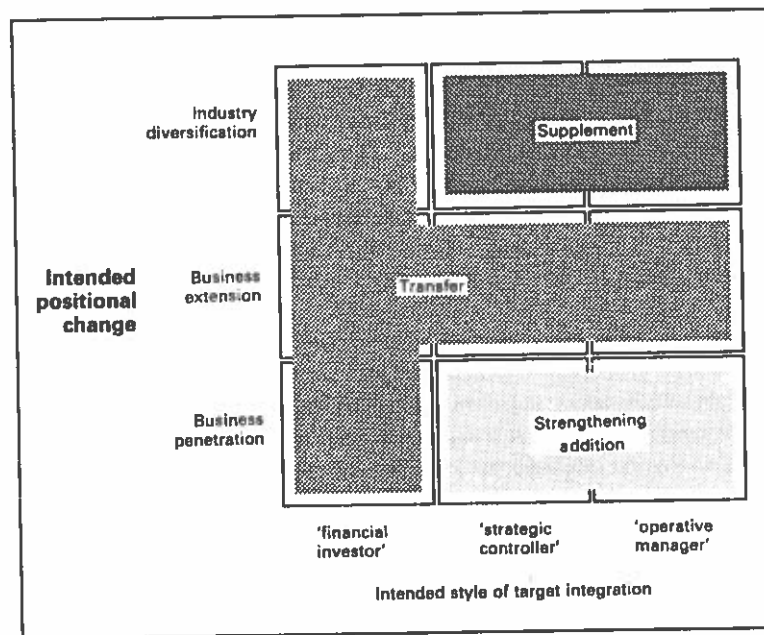


FIGURE 3.4 Acquisition Policy and the Requisite Type of Synergy (Dominant Type)

become eliminated. In the worst case the acquisition policy has to be altered.

Apart from such cases of negative deviations, positive effects may also arise as a result of the acquisition-synergy analysis. At best, the candidate offers more synergies than required. So the acquirer would be able to enjoy a synergy surplus.¹⁴

This seemed to be true in the case of Otto's deal with Spiegel. They gained synergy by addition, transfer and supplement, although the position in the matrix indicates a lower need for synergy.

3. Assessing the Candidate's Acquisition Value

The determination of the acquisition policy and the requisite synergies examines the take-over problems from the acquirer's point of view. That part of the analysis fixes the intentions of the acquiring

company. Next it has to be analysed whether or not these purposes could be achieved by acquiring the candidate and organising combined action. The point is to assess the acquisition value of the candidate. On the one hand, this may help to determine the chances and risks of an acquisition, and in some cases even eliminate candidates. On the other hand, a special portfolio analysis can provide information on the intensity and major concerns of post-acquisition management.

Acquisition value does not only mean the price to be paid for the target. It stands for the whole long-term net benefit which comes from the acquisition to the buyer.

In the course of this analysis it is important to examine the candidate not only in an isolated way but always in its relation to the acquirer, because of the central question of whether both companies fit together.¹⁵ That is to say, the *acquisition fit* has to be determined. The better the fit between candidate and acquirer, which may already exist or which can be brought about with special measures, the higher the acquisition value of the target for the specific buyer.

In order to get information on this point, again the development of a special portfolio is suggested, which in the end can give a judgement on the synergy qualities of the candidate: the *acquisition-fit matrix* (Figures 3.5). The first dimension of the matrix concentrates on the quality of the value chains (or the competitive positions) of the candidates and the acquirer. The second dimension examines, from the acquirer's point of view, whether or not the value chains currently fit together or can be brought into line in the future. The scales are suggested as follows.

Strengths of the Value Chains

Low The value chains of both the acquirer and the candidate show apparent weaknesses. Under such circumstances an acquisition does not have to be ruled out but it requires considerable care. In this case, the second dimension, i.e. the fit of the value chains, is of special importance. If there are weaknesses in the same areas, a negative enforcement, that is to say, a pronounced negative synergy can be expected. On the contrary, two weak partners can support each other if the weaknesses are of a different nature.

Medium The value chains are considered to be of medium strength if at least one of the partners can be classified as strong. If the bidding company is stronger it may be able to achieve a reconstruction, for

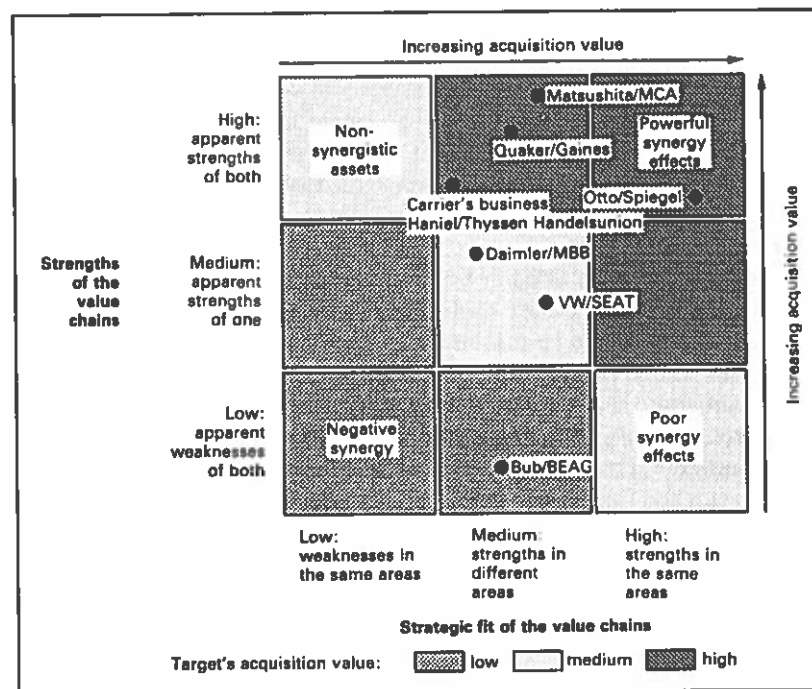


FIGURE 3.5 Acquisition-Fit Matrix (Comparing Acquirer with Candidate) (and Selected Cases)

example, by investing or transferring know-how. If the strengths are found on the part of the candidate, the acquirer can profit from this. In areas of high strategic fit a reduction of one's own weaknesses is possible. If the candidate possesses strengths in areas which do not fit with the acquirer, a possible sale of assets may be taken into consideration.

Quaker Oats was in this situation. The business of Anderson Clayton which were not needed were sold, the pet-food maker Gaines, who was in line with Quaker, remained as the core of the take-over.

High The value chains are of high strength if both partners possess fairly well-developed value chains. If they also go together well the

prerequisites for a 'superdeal' are perfect. Otherwise 'asset-stripping' may be thought of.

Strategic Fit of the Value Chains

Low With regard to the acquisition purposes of the acquirer, the value chains of the partners do not fit together or complement each other effectively and there is no chance to overcome this deficit with the help of post-acquisition management. The question of fit has to be regarded as a strategic problem. Consequently it is impossible to solve it by comparing the similarities of the value chains. Two manufacturers of winter sports articles, for instance, probably possess highly similar value chains. However, if it is the acquirer's strategic objective to reduce his one-sided dependence on the winter season, he is unlikely to take over a competitor in the winter sports business. There would be no strategic fit for either of them. It would be, rather, advisable to add summer sports articles to the product range, a solution that can often be observed in the combination of ski and tennis equipment.

Medium We shall speak of a medium strategic fit if there is no clear fit in the present situation but there are reasonable prospects for achieving an appropriate fit in the future.

As a result, a candidate should also be analysed with respect to possible changes in the value chain, such as a conversion of production, so that the two partners can grow together and reach a satisfactory strategic fit. Such a conversion may of course also have an external effect, for example changed or newly defined markets.

An evaluation of strategic fit of medium markedness sounds relatively promising and can probably be found quite often. In these cases particularly, however, one has to investigate as thoroughly as possible so that the dangers described do not destroy one's dream. It is necessary to compare the presumed benefit of the synergy with the expected costs of conversion and post-acquisition management. Above all, rationality is called for.

As a matter of fact, in the case of Daimler Benz, the highly praised synergy-by-transfer effects have turned out to be relatively insignificant or even questionable. These effects alone would certainly not have justified the acquisition.

High According to the previous classification, a strategic fit is considered to be high if the present value chains already fit together and no significant deterioration is to be expected. It is of course this situation that every acquirer dreams of.

In the case of Otto and Spiegel this situation seemed to prevail. At present it looks as if the acquisition of MCA by Matsushita also possesses a high strategic fit.

III. FIXING THE BASIC ORIENTATION OF PAM

The results of the acquisition-policy matrix and the acquisition-fit matrix can be combined in the next step. This procedure leads to a third portfolio, the *post-acquisition-management matrix*.

1. Using the Post-Acquisition-Management Matrix

The post-acquisition-management matrix demonstrates, on the one hand, the risks and chances to be expected from the deal. On the other hand, the amount and the focus of post-acquisition management become visible (see Figure 3.6).

If both the target's acquisition value and the challenge for PAM are low the acquisition is questionable. The target does not show substantial synergy potentials or hidden assets. Moreover, the acquirer is not interested in active problem-handling, restructuring or integrating the candidate. Such positioning indicates a case for non-acquisition. The acquisition would only be recommendable if the acquirer had a higher aspiration level or was prepared to achieve a higher level of involvement. But in this case he would have to be aware of the fact that the dominant emphasis of post-acquisition management has to be laid on further *investment* and all kinds of *restructuring* activities. This focus is necessary to compensate for or to improve the target's low acquisition value.

If the acquirer is not willing to get more involved with the target, for example by fulfilling a finance-oriented strategy, the target needs to have a modest level of acquisition value. In this case at least, poor synergy effects or some non-synergistic assets may justify the take-over, if the buyer carefully links together some systems or procedures with the acquired firm, for example; the use of adequate controlling

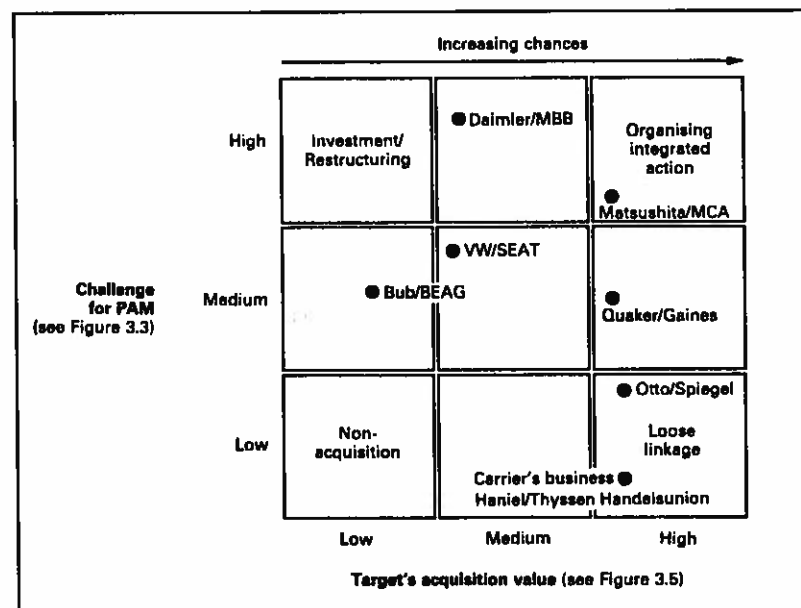


FIGURE 3.6 *Post-Acquisition-Management Matrix*

instruments can then be seen as the basic orientation of post-acquisition management. The intensity of such activities could remain on a moderate level because a complete integration is not intended by the acquirer.

The discussion of the three positions which have been described above clearly shows the characteristics and main elements of possible acquisition situations. The result reveals that the chances and risks are very different and that, in fact, post-acquisition management consequently has to select different approaches. Two of the three matrix fields that have been dealt with are to be classified as very difficult or non-recommendable areas. Only one field, which has been characterised in terms of 'loose linkage' activities, signals a clearly recommendable position. A prerequisite for this, however, is an adequately high acquisition value of the target.

This prerequisite also holds for the last corner of the field to be discussed. Apart from a high acquisition value of the target, it is characterised by a strong challenge for the acquirer's PAM. The challenge is regarded as strong if the intended change of competitive

position and the intended impact on the target can at least be described as medium. This can only be realised if the activities and structures of the acquired company are more or less coordinated with those of the buyer or if both companies are integratively combined.

Therefore *organising integrated action* is to be regarded as the primary focus in this area. This solution requires an increasing amount of post-acquisition management. Obviously it is the more rewarding the higher the target's acquisition value is ranked. At first glance such positions seem to be the most valuable. But, for getting the desired results and exploiting the target's value, a more intensified post-acquisition management is required. Thus, an optimisation is needed between the margin rate of post-acquisition effort and the margin rate of post-acquisition profit.

All in all, the post-acquisition matrix clearly shows that the potential benefit of an acquisitions has to be examined thoroughly and that it hardly ever appears automatically. *Acquisition benefits do not 'arise' or 'emerge' as a kind of 'natural' consequence of the take-over. These fragrant benefits have to be created, have to be organised and controlled.* No benefit can be thought of without considering the required active management. The special advantage of the post-acquisition-management matrix is in fact that, used in advance, this framework allows an analysis of the acquisition policy. The acquirer is able to see the consequences of the status he desires and, if necessary, to change his plans. Thus, it is important that there is feedback between the results of the post-acquisition-management matrix and those of the acquisition-policy matrix.¹⁶

2. Discussion of Selected Cases

These aspects are also to be taken into account in positioning the various cases mentioned above (see Figure 3.7). The characteristics of the various take-overs are clearly revealed. Risks and chances and the required direction of thrust of the subsequent actions become apparent. All this can be perceived even by an external observer. The acquirer himself will obtain further knowledge if he applies the portfolio analysis that is suggested here, enriched with internal information.

The worst position among the selected examples is held by the East-German brewery, BEAG, and its buyer, the West-German Brau und Brunnen AG. The take-over is positioned quite close to

the non-recommendable area. Post-acquisition management has to focus on active restructuring. Considerable investment for modernisation and restructuring in the production and sales areas are called for.

What arguments can justify the acquisition of a firm in such a situation?

Monetary Reasons

The simplest reason is a very low acquisition price and/or reasonably safe expectations that the acquired assets will experience an increase in value in the future. Such reflections play quite an important role in the case of investments in parts of the former GDR. Acquirers especially calculate that estates will considerably increase in value. However, these hopes are regularly faced with the rather low value of outdated, rotten machinery and, in many cases, of the buildings, too.

In the case of BuB/BEAG these considerations have obviously played an important role, as BEAG possesses large properties in and around Berlin, a promising location for the future.

On top of that, all acquisitions in East Germany have to reckon with high costs and risks which result from reducing the excessive workforce. Last but not least, at many industrial locations there is fear of hidden environmental damage caused by the former owners and to be paid for by the new ones.

Opportunity Costs

Acquisition price and expenses for restructuring, on the one hand, assets and expected revenues, on the other, contribute to the monetary benefit of the acquisition object. An acquisition is perceived as an option for external growth. This means of entering a market has to be compared with the possibility of internal growth, for example the foundation of subsidiaries. In this respect the special conditions for market entry and the barriers to be overcome are important.

Thinking in alternatives is a precondition of every managerial decision. In the case of acquisitions, considerations with respect to opportunity are especially called for if investing in the acquired company is being reckoned with.

Competition-oriented Reasons

Last but not least a glance at the competitors is quite significant. If there is a danger that a candidate might be acquired by a competitor, aspects regarding competitive strategy come to the fore. In a borderline case, an acquisition is only pursued in order to occupy the ground before the competitors do, and thus block the market. These reasons are likely to be important for all larger investments in East Germany, and probably also in the case of BuB/BEAG. The cards are newly cut on the market of the unified Germany, and reacting as early as possible is to be recommended, especially in those industries producing or retailing consumer products.

The portfolio position of BuB, however, clearly shows the efforts that are related to the strategic objective. Before major returns can be expected, years will pass by that will be characterised by considerable investment and restructuring efforts.

Me-too Acquisitions

Finally, one will find that acquisition decisions can also be explained by copying effects. It cannot be overlooked that, even within strategic management, regular fashion effects appear. At present, acquisitions and alliances are 'in'.

After the announcement of a strategic alliance between the Daimler Benz subsidiary MTU and UTC's subsidiary Pratt & Whitney, BMW also expressed its intention to step into the aero-engines business. For this purpose they founded, with Rolls Royce, the joint venture, BMW Rolls-Royce Aero Engines. As in the case of Daimler, it is the objective of BMW to obtain diversification and programme leadership, partly in competition with the respective units of the Daimler Benz group. Their primary concern was the market entry, and the question arises, if and when there will be definite returns on investment.

The cases of Otto/Spiegel and Quaker/Gaines, which have already been carried through, are also of interest. The position of Otto/Spiegel expresses a high benefit for Spiegel and a comparably low strategic aspiration level for Otto. Neither did Otto want to diversify, nor was a total integration of Spiegel aimed at. The recommendation of loose linkage, which is given in the matrix for

this position, corresponds to the successful action undertaken by Otto. The Spiegel management remained in the company, the synergy potentials were exploited by shared systems and procedures, and the market entry was successful.

The management of Quaker Oats also acted consistently. The treatment of Anderson Clayton and the integration of Gaines meets the need for coordinating the production and sales of the products.

Another interesting example is the deal between Matsushita and MCA. The – assumed – high value of the candidate, MCA, and the ambitious acquisition goal of Matsushita correspond to a position which indicates an intensive post-acquisition management. We can look forward with suspense to what action the Matsushita management is going to take in the end. It is true that the products – cinema and TV productions on the one hand, manufacturing of the respective equipment and cassettes on the other – are extremely complementary. But the rules of competition, the technologies, and the know-how required for producing this kind of hardware and the related software, are as different as one can think of. Hollywood studios, actors and producers are on the one side, mass production, engineers and business people on the other. To crown it all, in addition to the industry-specific differences, and with respect to the corporate culture, there are country-specific differences (USA–Japan). It is hard to imagine how to manage such different conditions and businesses by using the same systems, procedures, and leadership style.

Subsequent to the acquisition of SEAT by VW, a steady exchange of experts and know-how began. VW saw to it that the motorcars produced in Spain would meet German efficiency and quality standards. As in the cases mentioned above, the management of both firms is organisationally interlocked. This mixture of actively improving the acquired value chain and purposefully achieving an integrated action is reflected in the portfolio position as well. So far, VW has been successful with this acquisition policy. This does not, however, exclude problems regarding the organisational structure. It is easy to find arguments in favour of a holding structure within the VW group, as it is called for on the part of the SEAT managers. The specific strengths and weaknesses of such organisational structures have to be clarified with regard to

competitive strategies and structures. However, acquisition portfolios cannot give this type of information.

In the case of Daimler/MBB, the matrix shows a position which is clearly at a distance from the fields that are classified as especially promising. From the point of view of an external observer, a considerable demand for intensive post-acquisition management is recognisable. At the same time – unlike VW/SEAT – a rather strong diversification is part of the problem. However, steering diversified businesses demands other capabilities, structures and systems than integrating businesses for the purpose of synergy exploitation. Here lies a hardly solvable contradiction. With an increasing exploitation of synergy effects by integration, the market-oriented flexible management of diversified businesses is endangered and vice versa. One can predict that Daimler Benz is bound to have considerable difficulties in handling this dilemma.

The last of the selected examples is Haniel. It can more or less be characterised as a conglomerate. Partly, also, a concentric diversification in trading areas – as with the Haniel-Thyssen deal – was pursued. What all businesses have in common is a specific diversification policy (standardised service businesses etc.) and the apparently consequent investment and divestment policy. This requires a high degree of managerial flexibility and probably a considerable readiness to take risks. Clinging to traditional business fields is as bad as entering new ones when only based on vague prospects for the future. The top management of Haniel, which is supported by the owners, obviously possesses the necessary qualities. All relevant financial ratios improved during the five-year period from 1985 to 1989, although the turnover rentability is still rather low (hardly 2 per cent after taxes in 1989). In evaluating these figures, however, the proportion of trade in turnover has to be taken into consideration.

IV. MANAGEMENT TASKS AND CRITICAL SUCCESS FACTORS FOR REALIZING THE POST-ACQUISITION FIT

Up to this point we have only been able to say something about the sense of a potential acquisition. Nothing has been said of how to realise a 'theoretical' fit by PAM.

1. General Framework for Interaction

For realising the different basic orientations of post-acquisition management, various management tasks have to be fulfilled. The most central problem is the creation of the required general post-acquisition fit. The kind of fit is, on the one hand, dependent on the direction of thrust. If the post-acquisition-management matrix indicates 'investing', other tasks are needed than if 'loose linkage' is to be organised. On the other hand, it can be taken for granted that acquisition management is also dependent on critical success factors, as they are characteristic for every type of general management. From this point of view management tasks have to be perceived as recognising and influencing critical success factors. A general model of success factors can be taken as a basis for describing the task areas of post-acquisition management.

For this purpose the model, COMPASS (Concept for Multi-dimensional Planning and the Analysis of the Strategic Components of Success),¹⁷ can be used. It sophisticatedly develops approaches like that of Peters and Waterman (1982), and tests them at both especially successful and unsuccessful companies.¹⁸ Based above all on an explorative study of a total of 96 companies, statements on the general practical significance of the six groups of success factors could be worked out. These factors can be bundled together to form a general behaviour pattern for strategic management, and symbolised in a hierarchy of success¹⁹ (Figure 3.7).

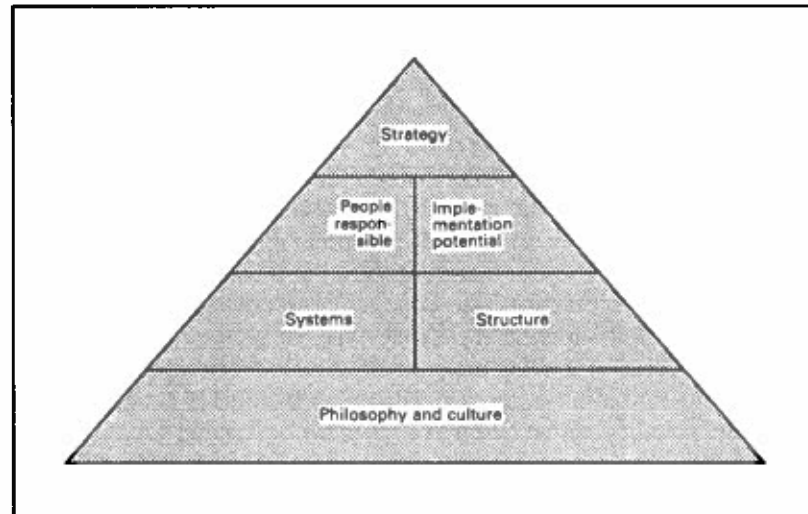
In order to translate this 'hierarchy of success' into action, executives should distinguish the following four steps.²⁰

(1) Generating Impetus for Action: 'Strategy'

The top of the hierarchy is built by the segment 'strategy'. On the one hand, this positioning corresponds to the empirical significance of strategy as the most important critical success factor. On the other hand, we have to accept that designing and changing success segments and, as a result of such activities, improving and exhausting success potential, is impossible without strategic orientation. Gaining strategic orientation is therefore to be seen as the first step.

(2) Securing Basic Requirements: 'The People Responsible' and 'Implementation Potential'

In the second step, executives have to secure basic requirements for reaching strategic purposes. Segments related to this are 'the people

FIGURE 3.7 *Hierarchy of Success*

responsible' and 'implementation potential'. In most cases, revising the fundamentals of corporate strategy will have consequences for both segments. Perhaps some members of the management team have to be replaced or moved, often a requirement of new strategies. The various kinds of implementation resources have to be checked. Reaching strategic goals demands appropriate human, financial, and technical resources. The best strategy will remain weak and powerless if it is not supported by motivated and qualified top managers and an effective implementation potential. The remaining segments can only develop their special strengths if these basic requirements are fulfilled.

(3) *Installing Managerial Instruments: 'Systems' and 'Structure'*

Building up or varying the 'the people responsible' and 'implementation potential' are necessary conditions for reaching success, but they are not sufficient ones. Based on these assumptions, executives have to accomplish tasks such as communicating and coordinating, steering and staffing. Support for these tasks must be given by modern systems and appropriate structures. Both 'systems' and 'structures' can be regarded as instruments for reaching success and diminishing

failure. All activities of installing and developing, e.g., management development programmes, incentive systems, information systems, delegation and decentralisation, belong to this third step.

(4) *Creating a Catalytical Climate: 'Philosophy' and 'Culture'*

According to the empirical findings of COMPASS, 'philosophy/culture' is to be seen as a factor of medium or low importance. Analysing the dependences of success segments gives further arguments for explaining this result. Corporate philosophy is based on the people responsible as well as on other members of the firm. Corporate culture comprises, for example, artefacts, myths, rituals, symbols, and behavioural patterns. Such elements have to be developed not only by social processes but also by changes in 'systems' and 'structure'. The segment, 'philosophy/culture', therefore, represents long-term effects caused by changes in other success segments. Nevertheless, these effects have to be based on an explicit formulation and documentation of the goals for cultural development. The functions of philosophy and culture may be described as behavioural on the one side, managerial on the other. Behavioural functions are concentrated, above all, on motivating and stimulating people, and giving them an orientation of personal behaviour and performance that is demanded by the company. With regard to managerial tasks, we have to consider that cultural factors support strategy implementation and acceptance as well as the coordination and development of internal entrepreneurship. It is by such effects that this basic segment of the hierarchy of success will cause a catalytic climate, for example, it will provide a better fit between the other segments.

2. *Defining an Integration Plan for Company Transformation*

Formulating an integration plan is part of rationalising the post-acquisition phase. It describes the 'way of coming together' and is dependent, for example, on the intended future relationship between parent company and subsidiary, from the relationship of the new business(es) to the existing business(es) etc.²¹ Usually the integration plan should be written *before* signing the contract, because it helps to understand later entrepreneurial tasks and to evaluate the target in a strategic context.

The *hierarchy of success* forms the background for the content of an integration plan and defines the tasks of post-acquisition manage-

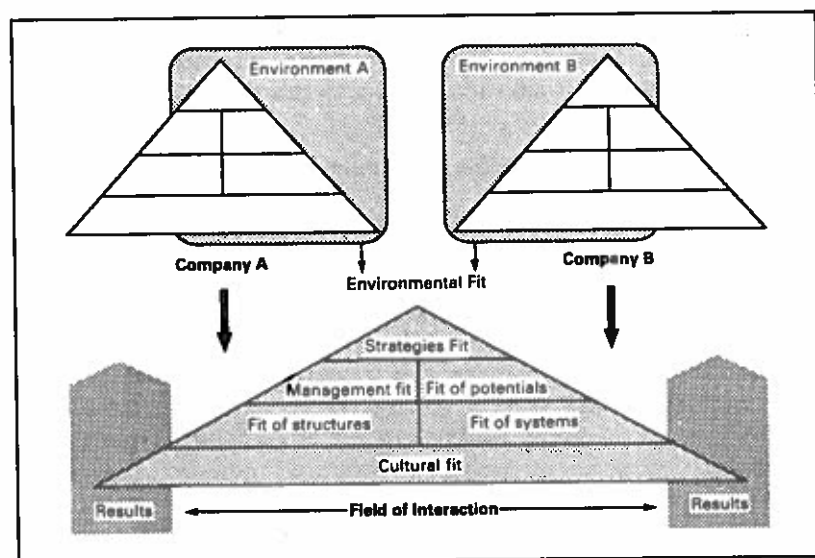


FIGURE 3.8 Elements of Strategic Fit

ment. In the scope of the interaction between acquirer and acquired company, six areas of acquisitional fit can be deduced (see Figure 3.8). Their significance, and thus the impact of the critical success factors, is dependent on the acquisition policy. So it is quite useful to go back to the post-acquisition matrices in order to work out these differences. With respect to the six success segments, the following considerations should be taken into account.

Strategy

Usually an acquisition is part of a diversification strategy. The target has to fulfil a specific task in the strategic concept of the buyer. This could mean that the former or current strategy of the target does not fit with this concept. The strategies have to be consolidated. The corporate policy of the buyer has to include the new company.

On the business level, a clearly formulated *competitive strategy* is vital for all four basic orientations which were distinguished earlier (see Figure 3.6). It is likely that this strategy is the more important the more demanding the acquisition policy is – for example, if a complete reorientation of the competitive position is aimed at.

In the field of 'non-acquisition' it provides the acquirer with the criteria for a decision in favour of or against the candidate. It is more than likely that many failures and disappointments through acquisitions can be explained in terms of an imprecisely formulated corporate strategy.

In the field of 'investment/restructuring' the acquirer's strategy is the precondition for steering the required investments and structural changes. In this case the strategy also has to be defined in advance for the success of an acquisition. Obviously it depends heavily on rapid action with regard to restructuring. This is the only way to avoid losing personnel and customers because of periods of uncertainty – and usually the best employees leave the company first.²²

If 'organising integrated action' is aimed at, the interaction between strategy and structure plays a significant role. How the integration is to be achieved in the end, for example through independent subsidiaries or interlocking directorates, depends to a great extent on the acquirer's strategy.

'Loose linkage' also means that no close personal and structural combination of the two firms is intended. The independence of the acquired management is maintained to a great extent. In this case the strategic demands have to decide finally whether the most important people in the acquired company can keep their positions. Strategy also defines the amount of information needed, which is to be met by introducing appropriate systems.

People Responsible

Obviously, from the buyer's point of view, the people responsible are of equal importance for any kind of basic orientation. It is the top management team of the acquiring firm that determines the acquisition policy. If the buyer plans an intensive integration of the target, for example by interlocking directorates or multiple directorships, the skills and the motivation of his management team becomes a most important success factor. The main question is whether or not the management of the acquiring company possesses the abilities and the knowledge to manage the new, and perhaps unknown, business(es).

Those employees of the candidate in responsible positions, above all the top management team, and the owners as well, are the more important the more they are expected to play an independent role in the future. Their abilities, motivation and loyalty become crucial elements of the acquisition's success if they remain in their positions.

Giving them a new and inspiring vision and offering them adequate incentives are very important tasks. Especially in the service industry (e.g. software companies), the value of a company is, to a high degree, dependent on the future contribution of the target managers, who are often the former founders.²³

Implementation Potential

The success segment, 'implementation potential', contains know-how as well as technological, financial and human resources. The relevance of such potentials depends on the strengths of the value chains. Therefore the position with regard to 'investment/restructuring' mostly requires the insertion of various potentials, from the acquirer to the target or vice versa.

The relevance of the various aspects of implementation potential may also be clarified by using the kinds of synergy effects differentiated above. All matrix positions which are correlated with synergy by supplement and by transfer require a great amount of implementation potential. Synergy by transfer typically focuses on know-how and technology, occasionally also on human capital. Exploiting synergy by supplement can lead to the insertion of any kind of implementation potential. But the more the intended competitive position differs from the present one, the less relevant are know-how, technology and human resources. The importance of financial resources increases to the same extent.

Systems

In the case of acquisition planning the control systems and information systems serve as instruments for steering and coordinating the various business units or subsidiaries. They are most important for the purposes of 'loose linkage' because, in such cases, no structural or managerial integration exists. This is also true for incentive systems. These systems motivate the target's management towards the common objectives, and demonstrate that the new members of the management team also participate in the success and profit of the corporation.²⁴

Structure

The segment, 'structure', contains any change in the organisation chart and the restructuring of processes. Changing hierarchical posi-

tions and lines of command, restructuring and reducing sub-systems are often part of post-acquisition management. Positions within the area of 'organising combined action' in the post-acquisition-management matrix indicate a moderate need for structural activities. The intended linkage between the parent company and the target is quite close and therefore an integrating and integrated structure is to be developed. Today, in many cases, holding structures are preferred because of their flexibility towards customers as well as markets.²⁵ In this respect it is important to dismantle the often voluminous head offices of the group ('big heads'). Operative tasks are transferred to the responsibility of the subsidiaries. The same holds good for some of the supporting tasks, parts of which can also become independent and separated out. At the top, only the essential tasks remain, such as directing, coordinating, budgeting, controlling; tasks which cannot be delegated.

In the field of 'investment/restructuring' there will typically be the highest need for structural measures, as the value chains of the companies concerned show the least common ground and strengths. Often, appropriate structures have to be built, further development or coordination is insufficient.

Philosophy and Culture

The relevance and the required change of corporate philosophies and cultures depend on the acquisition policy (see Figure 3.4). The acquisition of a target from unrelated industries may not lead to a cultural amalgamation. To force the acquirer's culture upon the target would cause demotivational effects. Besides this, the intended style of target integration has an influence on cultural problems. The higher the required level of integration, the higher the relevance of cultural fit. Problems of cultural integration emerge in the fields of 'investment/restructuring' and 'organising combined action' of the post-acquisition-management matrix (see Figure 3.7)

Thus, the acquired company often has to adopt the culture of its acquirer. From the candidate's point of view this can lead to severe problems if the deal is regarded as an act of 'barbarism' or 'conquest', as is the case with an unfriendly take-over. Spreading demotivation and a turnover of top executives are the results. In many cases mainly small companies with a clear-cut culture, their positive characteristics are lost after being swallowed by a big company, so that exactly the effects which the buyer was expecting from the take-over stay away.

In such cases it could be better to accept a cultural compromise or autonomous sub-cultures. It seems to be a typical feature of most transactions, that the sensitivity of cultural problems is underestimated while the changeability of cultures is overestimated.²⁶

3. Making PAM Work

Transforming a company to a new structure of businesses by integrating acquisitions is a highly-complex and ill-structured problem. We have to use different, competing paradigms for understanding the problem step by step. In this way we hope to find different clusters of possible misfits in the hierarchy of success. A first step would be to define these misfits from each relevant point of view: we have to develop a higher sensitivity towards possible conflicts.

But not every misfit is inefficient. For example, the organisation design in a software business should be different from that in the automotive industry. So we have to decide on a second step, whether to accept a misfit or not.

Thirdly, we should rank these misfit-clusters, which we want to reduce, according to their importance for the success of the acquisition (see Figure 3.6) and according to the possibilities of our reducing them. For the misfits with high importance and reduction potential, we have to develop action-programmes. Usually a project management should be installed with clearly defined responsibilities, a timetable and controlling-procedures with feedback-loops to correct the action plans in case of a revised understanding of the problem. For the other misfits it may be sufficient to start some actions without defining projects.

At least, it should not need mentioning, that it is easier to install the integration plan by actions, if the managers who have to execute it have been involved in the development of the strategies – including the operating managers of the target.

NOTES

1. We gratefully thank Stefan Reissner and Jürgen Spickers for some helpful contributions to this article.
2. Helpful here are the different views on an organisation from Morgan (1986) and Bolman and Deal (1991).
3. See, for example, Sieben and Sielaff (1989).

4. See, for example, Müller-Stewens (1990).
5. For one example, see Leimer (1991).
6. See *M&A Review*, a bimonthly report on the German market for corporate control. For another description see the various articles in Siegwart et al. (1990).
7. For empirical results on acquisition success, see Kitching (1967), Kitching (1974), Porter (1987). Bühner (1990) classifies most of the recent international investigations on merger success according to the chosen methods for measuring 'success'. For focus on German acquisitions, see Möller (1983), Bühner (1990).
8. For the technique of an acquisition-policy matrix, see Newton (1981).
9. This has given rise to much controversy in German boards constructed according to the specific, private-ownership structure mentioned above. At the last general meeting of VEBA AG, one of the greatest conglomerates in Germany, some minority-shareholders blamed the management for destroying shareholder value. They demanded that the company be split. For the shareholder-value approach, see Bühner (1990a and b).
10. See Krüger (1988b) p. 372.
11. For the value-chain concept, see Porter (1985) p. 33.
12. For transferring the value-chain concept to acquisition problems, see Gomez and Weber (1989) p. 29; Payne (1987). Klemm (1990) p. 192, also refers to Porter's concept, whereas Vizjak (1990) argues for synergies within the value chain from a 'strategic alliances' point of view.
13. See Prahalad and Hamel (1990) p. 79.
14. Sandler (1991) p. 231 requires an Integrated Synergy Management to release simultaneously synergies in efficiency ('scale economy'), potential ('scope economy') and power. See also, Section III.1 of this article.
15. See Mc Cann and Gilkey (1988) pp. 194ff.
16. For another matrix-approach towards integration (and disintegration) potentials, which is again based on the value-chain approach, but focuses – in a highly compressed manner – on input-factors, see Faulhaber and Rumpelhardt (1991) p. 7.
17. COMPASS was developed and empirically tested in the FRG by Krüger. See Krüger (1988a).
18. COMPASS is comparable to the research of Peters and Waterman (1982).
19. These success factors are comparable to the factors in the 7S-model of leadership activities of McKinsey. They help us in thinking about Change Management, Corporate Restructuring or Corporate Transformation. See, for example, Kilmann and Covin (1989). For a similar approach to putting together significant determinants of integration results, see Scheiter (1989).
20. For the hierarchy of success, see Krüger (1989a) and Krüger (1989b) pp. 106–13.
21. See the typology of different integration styles in Reineke (1989) p. 91.
22. See Walsh (1988) pp. 173–83.
23. See Buono and Bowditch (1989) or Müller-Stewens (1991).
24. A very interesting discussion of general contributions of this system's

- approach to integration success can be taken from Leimer (1989), who applies the systems theories developed by Stafford Beer to PAM.
25. See Bühner (1990a and b) chapter VII; Keller (1990).
26. See Schein (1990).

REFERENCES

- Bolman, L. G. and T. E. Deal (1991) *Retraining Organizations* (San Francisco).
- Bühner, R. (1990a) *Das Management-Wert-Konzept* (Basle and Stuttgart).
- Bühner, R. (1990b) *Erfolg von Unternehmenszusammenschlüssen in der Bundesrepublik Deutschland* (Stuttgart).
- Bühner, R. (1990c) *Unternehmenszusammenschlüsse* (Stuttgart).
- Buono, A. F. and J. L. Bowditch (1989) *The Human Side of Mergers and Acquisitions* (San Francisco and London).
- Faulhaber, P. and M. Rumpelhardt (1991) 'Wie "teuer" wird die Übernahme?', in *Blick durch die Wirtschaft*, 23 Jan., p. 7.
- Gomez, P. and B. Weber (1989) *Akquisitionsstrategie – Wertsteigerung durch Übernahme von Unternehmen* (Stuttgart).
- Keller, T. (1990) *Unternehmensführung mit Holdingskonzepten* (Cologne).
- Kilmann, R. H. and T. J. Covin (1989) *Corporate Transformation. Revitalizing Organizations for a Competitive World* (San Francisco and London).
- Kitching J. (1967) 'Why do Mergers Miscarry?', in *Harvard Business Review*, Nov.–Dec., pp. 84–101.
- Kitching J. (1974) 'Winning and Losing with European Acquisitions', in *Harvard Business Review*, March–April, pp. 124–36.
- Klemm, M. (1990) *Die Nutzung synergetischer Potentiale als Ziel strategischen Managements unter besonderer Berücksichtigung von Konzernen* (Bergisch Gladbach).
- Krüger, W. (1988a) 'Die Erklärung von Unternehmungserfolg: Theoretischer Ansatz und empirische Ergebnisse', in *Die Betriebswirtschaft*, no. 1, pp. 27–43.
- Krüger, W. (1988b) 'Management von Akquisitionsprojekten', in *Zeitschrift Führung und Organisation*, no. 6.
- Krüger, W. (1989a) 'Hier irrten Peters/Waterman', in *Harvard Manager*, no. 1, pp. 13–18.
- Krüger, W. (1989b) 'Patterns of Success in German Business', in *Long Range Planning*, vol. 22, no. 2, pp. 106–13.
- Leimer, W. K. (1989) *Integration von akquirierten Unternehmen auf Grund des Modells lebensfähiger Systeme* (Zürich).
- Leimer, W. K. (1991) *Die Integration akquirierter Unternehmen* (Berne and Stuttgart).
- McCann, J. E. and R. Gilkey (1988) *Joining Forces – Creating and Managing Successful Mergers and Acquisitions* (Englewood Cliffs).
- Möller, W. P. (1983) *Der Erfolg von Unternehmenszusammenschlüssen – Eine empirische Untersuchung* (Munich).
- Morgan, G. (1986) *Images of Organization* (Beverly Hills).
- Müller-Stewens, G. (1990) *Strategische Suchfeldanalyse* (Wiesbaden).
- Müller-Stewens, G. (1991) 'Personalwirtschaftliche und organisationstheoretische Problemfelder bei Mergers & Acquisition', in Ackermann, K.-F. and Scholz, H. (ed.), *Personalmanagement für die 90er Jahre* (Stuttgart).
- Newton, J. K. (1981) 'Acquisitions: A Directional Policy Matrix Approach', in *Long Range Planning*, vol. 14, no. 6, pp. 51–7.
- Payne, A. F. (1987) 'Approaching Acquisitions Strategically', in *Journal of General Management*, vol. 13, Winter, no. 2, pp. 6–16.
- Peters, T. and R. H. Waterman (1982) *In Search of Excellence* (New York).
- Porter, M. E. (1985) *Competitive Advantage. Creating and Sustaining Superior Performance* (New York and London).
- Porter, M. E. (1987) 'Diversifikation – Konzerne ohne Konzept', *Harvard Manager* no. 4, pp. 30–49.
- Prahalad, C. K. and G. Hamel (1990) 'The Core Competence of the Corporation', in *Harvard Business Review*, May–June.
- Reineke, R. D. (1989) *Akkulturation von Auslandsakquisitionen* (Wiesbaden).
- Sandler, G. G. R. (1991) *Synergie: Konzept, Messung und Realisation – Verdeutlicht am Beispiel der horizontalen Diversifikation durch Akquisitionen* (St Gallen).
- Schein, E. (1990) 'Mergers and Acquisitions: Some Critical Issues for CEOs', in Center for organisational studies (ed.), *Mergers and Acquisitions: Organisational and Cultural Issues*, working document no. 1 (Barcelona) June.
- Scheiter, D. (1989) *Die Integration der akquirierten Unternehmung* (St Gallen).
- Sieben, G. and M. Sielaff (eds), (1989) *Unternehmensakquisition, Bericht des Arbeitskreises 'Unternehmensakquisition' der Schmalenbach-Gesellschaft* (Stuttgart).
- Siegiwart, H., J. I. Mahari, I. G. Caytas and B.-M. Rumpf (eds), (1990) *Mergers and Acquisitions* (Basle and Frankfurt).
- Vizjak, A. (1990) *Wachstumspotentiale durch Strategische Partnerschaften – Bausteine einer Theorie der externen Synergie* (Munich) pp. 95–123.
- Walsh, J. P. (1988) 'Top Management Turnover Following Mergers and Acquisitions', in *Strategic Management Journal*, pp. 173–83.