

FACTULTY OF BUSINESS AND ECONOMICS
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**The Role of Speed of Integration in the
Integration Effectiveness and Mergers &
Acquisitions Success**

Thesis summary

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1. The aim and hypothesizes of the doctoral dissertation

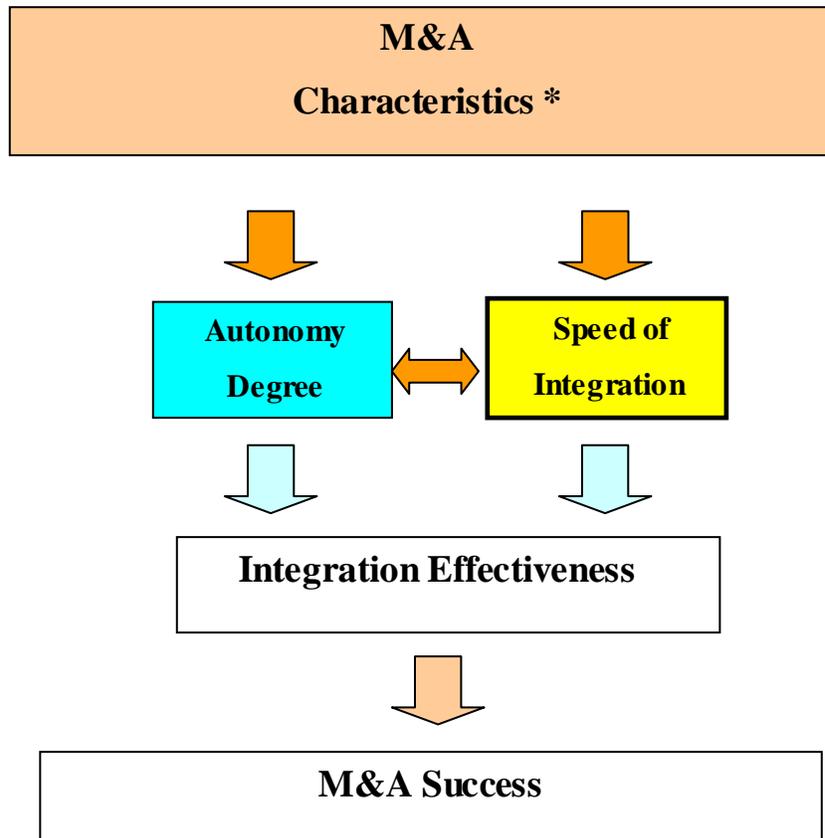
This dissertation presents a research in the field of business strategy and focuses on the strategy of mergers and acquisitions (M&A), at the stage of the performance of the post merger integration between the firms. The dissertation focuses on the making of decisions regarding the speed of integration (SOI) and integration approach, assuming that they influence the integration effectiveness and M&A success.

The research objective is to add managerial knowledge in the field of M&A, when the assumption is that additional variables that influence the integration effectiveness and M&A success will be found. The research is supposed to add theoretical knowledge in the field of management and practical knowledge for managers who are facing a decision in the stage of planning and performing the integration between companies, after the closing of the M&A deal.

The research question is: What is the Role of the Speed of Integration on the Integration Effectiveness and on the M&A Success? And the research assumption is that the variable SOI has an important influence on the integration effectiveness and on the M&A success.

The research model includes 10 independent variables that represent the M&A characteristics - M&A Type (Cross Border / Domestic), Combined Firms Size, Relative Firms size, Acquired Age, Acquirer Previous M&A Experience, Relatedness, Organizational Culture Differences, Acquirer Nationality, M&A main goal, Synergy Potential. The research model also includes two moderators - speed of integration and degree of autonomy given to the acquired firm, and two dependent variables – integration effectiveness and M&A success. The research model is representing in the following chart.

The research model chart



*** M&A Characteristics: M&A Type (Cross Border / Domestic), Combined Firms Size/Relative Firms size, Acquired Age, Acquirer Previous M&A Experience, Relatedness, Organizational Culture Differences, Acquirer Nationality, M&A main goal, Synergy Potential.**

The research includes 26 hypotheses as follows in the table that shows also if the hypothesis confirmed or rejected. The research statistical procedures include correlations analysis and regression analysis between all the research variables.

The research hypothesis tables

No.	Hypothesis	Result
1a	Hypothesis 1a – Positive relationships will be found between the combined size by revenue and the integration effectiveness and M&A success.	Rejected
1b	Hypothesis 1b – Positive relationships will be found between the combined size by revenue and the level of autonomy of the acquired company and the SOI.	Rejected
2a	Hypothesis 2a – Negative relationships will be found between the combined size by number of employees and the integration effectiveness and M&A success.	Rejected
2b	Hypothesis 2b – Negative relationships will be found between the combined size by No. of employees and the level of autonomy degree of the acquired company and the SOI.	Partially Confirmed
3a	Hypothesis 3a – Positive relationships will be found between the relative size by revenue and the integration effectiveness and M&A success.	Confirmed
3b	Hypothesis 3b – Positive relationships will be found between the relative size by revenue and the level of autonomy degree of the acquired company and the SOI.	Rejected
4a	Hypothesis 4a – Negative relationships will be found between the relative size by No. of employees and the integration effectiveness and M&A success.	Partially Confirmed
4b	Hypothesis 4b – Negative relationships will be found between the relative size by No. of employees and the level of autonomy degree of the acquired company and the SOI.	Rejected
5a	Hypothesis 5a – Differences will be found between the Israeli acquirers and the non-Israeli acquirers in integration effectiveness and M&A success.	Confirmed
5b	Hypothesis 5b – Differences will be found between the Israeli acquirers and the non-Israeli acquirers in the level of autonomy degree of the acquired company and in the SOI.	Rejected
6a	Hypothesis 6a – Positive relationships will be found between the acquirer's	Partially

No.	Hypothesis	Result
	previous M&A experience and the integration effectiveness and M&A success.	Confirmed
6b	Hypothesis 6b - Positive relationships will be found between the acquirer's previous M&A experience and the level of autonomy degree of the acquired company and SOI.	Rejected
7a	Hypothesis 7a – Positive relationships will be found between the acquired age and the integration effectiveness and M&A success.	Partially Confirmed
7b	Hypothesis 7b – Positive relationships will be found between the acquired age and the level of autonomy degree of the acquired company and SOI.	Rejected
8a	Hypothesis 8a – Differences will be found between domestic acquisition and cross-border acquisition in the integration effectiveness and M&A success.	Rejected
8b	Hypothesis 8b – Differences will be found between domestic acquisition and cross-border acquisition in the level of autonomy degree of the acquired company and SOI.	Rejected
9a	Hypothesis 9a – Differences will be found in integration effectiveness and M&A success as a function of the M&A main goal.	Partially Confirmed
9b	Hypothesis 9b – Differences will be found in the level of autonomy degree of the acquired company and SOI as a function of M&A main goal.	Rejected
10a	Hypothesis 10a – Negative relationships will be found between the organizational culture differences and its dimensions and the integration effectiveness and M&A success.	Rejected
10b	Hypothesis 10b – Negative relationships will be found between the organizational culture differences and its dimensions and the level of autonomy degree of the acquired company and the SOI.	Partially Confirmed
11a	Hypothesis 11a – Positive relationships will be found between the synergy potential and its dimensions and dimensions and the level of autonomy of the acquired company and the SOI.	Partially Confirmed
11b	Hypothesis 11b – Positive relationships will be found between the synergy potential and its dimensions and the integration effectiveness and M&A success.	Rejected

No.	Hypothesis	Result
12a	Hypothesis 12a – Positive relationships will be found between the level of relatedness and the integration effectiveness and M&A success.	Partially Confirmed
12b	Hypothesis 12b – Positive relationships will be found between the level of relatedness and the level of autonomy degree of the acquired company and the SOI.	Rejected
13	Hypothesis 13 – A positive relationship will be found between the level of autonomy degree of the acquired company and the integration effectiveness and M&A success.	Rejected
14	Hypothesis 14 - A positive relationship will be found between the SOI and the integration effectiveness and M&A success.	Partially Confirmed

2. The research methodology

The methodological task is to find out if there is any significant connection between SOI and integration effectiveness or M&A success. To be more specific, to find out if it is better to speed-up or to slow-down the SOI to get better M&A performances. Because of the SOI is not a clear cut period, three methods of SOI definition were chosen in the research: the total SOI, the average SOI in nine organizational functions (or ASOI) and the sales & marketing SOI (or S&MSOI).

The research is a quantitative method research type that performed in Israel during the years 2007-2010. The research population includes approximately 1,000 M&A that include at list one Israeli firm (as acquirer or as acquired firms) in the years 1992-2007. The research e sample includes 138 M&A performed in Israel during those years with aggregate revenue of more than US\$10 million.

Because of the fact that there is no any M&A database that include data about SOI or data about the integration effectiveness, the only possible way to get the research data was to collect it by interviews of senior managers that were involved in those M&A throughout the entire integration period. In order to get a more accurate data, the research data collected by questionnaires during personal meetings with senior managers (general

managers, VP's etc.) from the companies that included in the research sample. This research sample includes cross-border and domestic M&A. and companies with a wide variety of characteristics: large and small companies, younger and older companies, companies with and without previous experience in the performance of M&A, etc., to cover all possibilities of characteristics and types of M&A found in the research model.

3. The research results

3.1 Speed of integration analysis

First the overall speed of integration was examined. The overall speed of integration (SOI) of all 138 M&A deals in the research sample was about eighteen months. In contrast, the planned speed of integration (PSOI) of all the M&A deals in the sample was about ten months.

The comparison of the gap between the planned speed of integration on the eve of the M&A and the actual speed of integration shows that in 68 of the M&A in the sample, which constitute 49% of the sample, the integration took longer than was first planned. The integration took an average 50% longer than it was planned ahead of time. The conclusion is that the integration process has a 'natural' tendency to take longer because of its complexity and the many unexpected variables. Another possibility is that from the beginning the integration planners were too optimistic in the evaluation of the schedule required for the integration performance, as happens in many cases of in-depth and in-breadth strategic and organizational change. In some cases this happens since the integration planners are expected to present an aggressive schedule.

The average speed of integration (AVSOI) of all the M&A deals in the research sample was about 15.5 months. This speed is, of course, much lower than the overall speed of integration, which depends on the conclusion of the integration in the organizational function where the integration was the slowest. In other words, it can be said that the weak link in terms of the speed of integration delays the end of the process by an average of an additional two and a half months (the gap between the overall speed of integration and the average speed of integration).

The average speed of integration in the sales and marketing function alone (S&MSOI) was about 11 months.

A significant difference was not found in the speed of integration between domestic M&A and cross-border M&A and this is a rather surprising datum since the integration in a cross-border M&A is supposed to be more complicated and therefore a slower speed of integration would be expected. In addition, a significant relationship was not found between the speed of integration and the following variables – the M&A main goal, the level of relatedness between the companies, the synergy potential, the relative size between the companies according to the number of employees, and the organizational cultural differences between the companies.

Another interesting finding is that the average speed of integration of the Israeli acquirers companies is higher than the average speed of integration of the non-Israeli acquirers. This finding can be explained in that the Israeli management, like the Israeli national culture, is a less formal management, tending to improvisation and greater flexibility, and this tendency apparently is expressed in the speed of integration as well. As the process is more planned, arranged, and structured, it is expected to take longer, and the reverse is true.

A significant negative relationship was found between the variable of the acquired age and the overall speed of integration. This can be explained by the fact that as the company is older, it is more fixed in its organizational culture, in its organizational processes, and in its employees' perceptions, and in essence it has 'organizational inertia' that makes the performance of integration difficult and thus it is more complicated to perform changes, in comparison to younger companies. This complexity apparently causes a lengthening of the integration period. As noted previously, when the relationship between the acquired firm age and the average speed of integration (AVSOI) was examined, a significant relationship between the variables was not found.

Another variable that significantly influences the average speed of integration is the variable of the combined size of the companies according to number of employees. The relationship is negative; as the combined size of the companies according to the number

of employees is greater, the speed of integration is lower. It is clear that as there are more employees from both companies, more employees are required to perform functional changes such as change in their place in the organizational structure, in their role definition, in their authorities, and in their areas of responsibility. All this takes time and apparently is the explanation why the speed of integration depends on the combined size and tends to be slower as the two companies are larger and include more employees.

When the impact of the organizational culture difference on the average speed of integration was examined, a significant relationship was not found. However, when the seven dimensions of the organizational culture were examined separately, a significant negative relationship was found in the fifth dimension of the variable – autonomy and decision making. In other words, as the two organizations are different in the manner of the company's management in terms of centralization versus decentralization (degree of delegation of authorities) in the decision making processes, greater organizational conflicts are expected and they are expected to delay the implementation of the integration plan and cause its duration to lengthen.

3.2 The impact of SOI on the integration effectiveness and M&A success

When the impact of speed of integration on the integration effectiveness was examined, it was found that according to two dimensions of speed, average speed of integration (AVSOI) and speed of integration in the sales and marketing function (S&MSOI) there is a significant positive impact on the integration effectiveness. In other words, as the average speed of integration (or speed of integration in the marketing and sales function) is higher, the integration is more effective. A similar relationship was not found when the dimension of speed was according to the overall speed of integration (SOI).

When the impact of the speed of integration on the M&A success was examined, a significant relationship was not found according to three dimensions of speed of integration. This result is slightly disappointing since it was expected that all that contributes to a more effective integration also helps the success of the M&A. It is

possible that the explanation is that in many cases the integration was performed slowly but still the acquisition succeeded, or alternatively the integration was performed too quickly and thus the acquisition failed.

Another interesting datum related to the speed of integration is the opinion of managers who participated in the research regarding the retrospective desired speed of integration (RSOI). The managers who participated in the research were asked to express their opinion in retrospect regarding the desired speed of integration that should have been adopted. They had to choose one of the following three options: the speed of integration should have been faster, the speed of integration should have been slower, and the speed of integration was optimal. 39% of the interviewed managers noted that ‘in hindsight’ the integration should have been performed more quickly.

3.3 Applicative Conclusions for Managers

a. The research shows that the speed of integration has a positive impact on the integration effectiveness. Therefore, apparently ‘faster is also better’ for the integration effectiveness. However, there is no one optimal speed that should be adhered to during the entire integration process and thus definitely the integration can be too fast and thus can be more detrimental than beneficial to the integration. Hence, it is necessary to suit the desired speed of integration according to the different conditions of the particular deal. Evidence of the necessity for adjustment is that in 9% of the deals the interviewed managers thought that the speed of integration was too fast and in retrospect should have been reduced. When the speed of integration is too fast, the possible outcome is that managers and employees do not have a period of acclimatization to the new organizational structure and to the new roles, and thus the creation of trust between the two sides is more difficult, since time is needed.

b. When an integration plan is designed, it is necessary to take into account ahead of time that it may last longer than planned. In light of the fact that the gap between the planning and the performance, in terms of speed of integration, was about 50% greater than what was planned, this possibility must be taken into account from the beginning. Hence, it is

recommended to determine close mechanisms of control to meet the objectives of speed of integration set in the integration plan.

c. The average speed of integration found in the research was about 18 months. This speed needs to be a type of index that can be taken into consideration in the planning of the integration so that the plan will be realistic in terms of its duration.

d. As the relative size between the companies in terms of the revenue is greater, as the acquiring company has greater previous experience in the performance of M&A, as the synergy potential between the companies is greater, and when the M&A main goal is the need to acquire new technologies or products or the need to broaden markets, it is recommended to accelerate the speed of integration since it contributes to the integration effectiveness.

e. According to the research results, as the acquired company is older, the chances of M&A success are higher. Therefore, in the stage of the choice of the acquired company it is necessary to take into account the acquired age as another parameter during the decision making.