FOREIGN ACQUISITIONS
MANAGEMENT OF THE INTEGRATION PROCESS

by

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FOREWORD AND ACKNOWLEDGEMENTS

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Stockholm in March 1982

Ulf Lindgren

CONTENTS

1 BACKGROUND AND INTRODUCTION

BACKGROUND

The basic purpose of the study was to investigate how multinational corporations manage the integration of acquired subsidiaries into the existing systems and structure of the acquiring group. By integration is meant the instruments, procedures and processes (integrative devices) used by the acquiring MNC in order to undertake changes in the systems and structure in the acquired subsidiary. Integration may be divided into two major categories. First, the MNC integrates the new entity into the systems used for coordination and control of its foreign subsidiaries, i.e. to manage headquarter-subsidiary relationships. Second, integration also aims at obtaining various coordination benefits between the MNC and the new unit. This latter form of integration is defined as operating integration. The need for and mode of integration of coordination and control systems is influenced by the strategic and environmental context of the acquiring MNC.

The need for integration of operating systems is influenced by the strategic nature of the acquisition, i.e. the extent to which different forms of coordination benefits can be obtained. A strong degree of interdependence exists between the strategic nature of the acquisition and the strategic and environmental context of the acquiring MNC.

Earlier research has shown that the management of the post-acquisition phase (i.e. the integration process) is of critical importance for the successful outcome of an acquisition. Thus, it is of interest to study the integration process, both to its nature and structure as well as to its objectives and outcome.

The research indicates that the degree of efficiency of post-acquisition management is a major determinant for a successful acquisition program. Efficiency of post-acquisition management can be measured against a set of criteria, some referrable to integration of coordination and control systems, some to the integration of operating systems.

The thesis consists of five articles,[1/] three of them originating from my own research project "Management of Foreign Acquisitions.[2/] This project was financed by the Institute of International Business at the Stockholm School of Economics. The research design was based on comparison

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1/ The five articles are:

- Corporate Acquisitions and Divestments - the Strategic Decision-Making Process (with Kjell Spångberg). International Studies of Management and Organization. Summer, 1981.
- Strategic Aspects of Post-Acquisition Management in MNCs. Accepted for publication in International Studies of Management and Organization. Spring, 1982 (forthcoming).
- Management of the Post-Acquisition Process in Diversified MNCs. In Otterbeck, L., Management of Headquarter-Subsidiary Relationships in MNCs. Gower Press Ltd. London, 1981.
- Board of Directors in Foreign Subsidiaries (with Laurent Leksell). Journal of International Business Studies. Spring, 1982 (forthcoming).
- Praktikfallsforskning - En metodologisk betraktelse (Appendix II).

2/ For a thorough description of research design and sample, see Metodbeskrivning för forskningsprojektet Management of Foreign Acquisitions (Appendix III).

of intensive case studies. In total, five Swedish multinational corporations were investigated, in which totally eleven acquired subsidiaries were being studied.

The background to the project could be summarized as follows. A large research project called the Management of Foreign Operations[1/] was conducted and financed by the Institute of International Business. The project group consisted of Anders Edström, Gunnar Hedlund, Laurent Leksell, Lars Otterbeck, and myself.

In total, six Swedish multinational corporations were investigated over a three to five year period. The project aimed at analyzing the various modes and systems by which the MNC managed the relations between the parent company/division, and its foreign subsidiaries. In the sample of twenty-seven subsidiaries, located in twelve countries, some that had been acquired by the parent company were also included. During the research it became clear that the integration of acquired subsidiaries was regarded as an especially difficult task, and that the relations between headquarters and a newly acquired subsidiary often were of a problematic nature.

Several other studies (see, for example, Kitching, 1973) have pointed out that the acquisition route to internationalization for various reasons has become more frequently used. Based on this, it was decided to undertake a study on how MNCs manage the foreign acquisition process and more specifically how they integrate the acquired company.

1/ For a description of this research project, see for example, Leksell, L., Management of Headquarter-Subsidiary Relationships in Multinational Corporations. EFI/IIB, 1981.

Integration could be seen as part of the acquisition process, which begins with the formulation of overall corporate strategy, where acquisition policies and guidelines form an integrated part and goes through a number of stages more or less easily identified. These stages could be summarized as in Figure 1.

Figure 1. The Acquisition Process

1. The Pre-Acquisition Phase consists of the formulation of overall corporate strategies and the establishment of acquisition policies and guidelines. This phase determines the way in which acquisitions are made and managed. Acquisition strategy then becomes part of the MNCs overall strategy. This view is expressed by, for example, Hanna (1969) and Mintzberg (1978). Various studies have aimed at explaining acquisition behavior and to find motives for acquisitions. (See for example Ansoff, et al., 1971; Gort, 1969; Haspelagh , 1979; Meeks, 1977; Mueller, 1969; Salter and Weinhold, 1979; Scott, 1977; Sperry, 1972; Steiner, 1975; and Weston, 1966).

Other studies have been concerned with the acquisition process as the outcome of dependencies between the firm and its environment, see i.e. Pfeffer (1973). Edström (1976) combines the perspectives of economics and organization theory in a study of acquisition behavior of Swedish firms. He concludes that industry concentration and financial strength are important determinants of acquisition behavior, while differences in corporate goals

account for variations in behavior. Corporate acquisitions as a strategic decision-making process is analyzed in the first article (Chapter 2) of the thesis, Corporate Acquisitions and Divestments - the Strategic Decision-Making Process (1980), which I have written together with Kjell Spångberg. The article presents the theoretical framework for analyzing corporate acquisitions which is offered by existing research and literature in the field of strategy formulation and implementation. It is based on structured experiences from two research projects, first, Management of Foreign Acquisitions, second, Management of Diversified Firms.[1/] In the pre-acquisition phase, the ground is laid for the way in which acquisitions are managed throughout the whole process.

2. The Acquisition Phase (sometimes called "The Negotiating Phase", see Madsen, 1979, p. 4) involves planning for the acquisition, the assignment of responsibility for carrying out the acquisition, the identification of a suitable candidate, evaluation of the target, negotiating with the selling company, investigating the potential acquisition candidate, and conclusion of the final acquisition agreement. The acquisition phase in its various stages has been studied by many researchers, and has also been discussed in a number of books and articles of a more normative character. Some of the more interesting studies are Kitching (1967 and 1973), Mace and Montgomery (1962), Rappaport (1979), and Salter and Weinhold (1979).

3. The Post-Acquisition Phase includes the measures undertaken to realize the objectives for the acquisition, i.e. to achieve the potential benefits which have been identified in the pre-acquisition as well as the acquisi-

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1/ For a detailed description, see Spångberg, K., Strategic Processes in Diversified Firms (forthcoming).

tion phase. The nature and structure of the post-acquisition process is described and analyzed in two articles in the thesis.

The first (Chapter 3), Strategic Aspects of Post-Acquisition Management in MNCs (Ulf Lindgren, 1980), explores the nature and structure of the integration process, and describes it in terms of integrative effort and complexity.

The second (Chapter 4), Management of the Post-Acquisition Process in Diversified MNCs (Ulf Lindgren and Kjell Spångberg, 1980), deals with the post-acquisition process in terms of magnitude of integrating devices used and the time period after which they are imposed on the acquired companies. The article also describes other aspects of the integration process which were identified during the research, such as the response of managers in the acquired company, the effect of changes inherent in an acquisition on the existing group companies, and finally, the blending of organizational cultures.

Various other studies deal with the issue of post-acquisition management. Mace and Montgomery (1962) found that in many cases the potential benefits of an acquisition are never obtained because of mistakes made during the integration process. Similar conclusions have been drawn in other studies, for example by Kitching (1967), Leighton and Tod (1969), Madsen (1979), and Meeks (1977). I shall return to this issue below.

One crucial problem is to determine when the integration process is terminated and thus the post-acquisition phase could be classified as an ongoing headquarter-subsidiary relation. Management of interdependence between the units will take place also after the process of integrating the newly acquired subsidiary into the acquiring MNC is over. The two processes are not totally distinguishable. On the

contrary, many of the integrating devices used in the integration process will be used in the management of future headquarter-subsidiary relationships. In this thesis the concept of integration refers to the process, through which changes in various systems in the acquired subsidiary and the establishment of new such systems are undertaken. The focus lies at the mechanisms for change being used in order to materialize the potential benefits of the acquisition, and to integrate the acquired company into the existing organizational, administrative and social systems of the acquiring MNC. The knowledge and experiences accumulated in the project on the management of headquarter-subsidiary relationships have been necessary to explore in order to understand the handling of the integration process, and how management of interdependence between the units is carried out. It has enabled me to better formulate research questions and to avoid unnecessary misinterpretations of the data gathered.

INTRODUCTION

The acquisition route to internationalization

Several studies (e.g. Kitching, 1973; Rydén, 1971) have shown that acquisitions come in waves. The merger activity of the late 1970's, however, is different from the previous ones. The number of foreign acquisitions has increased (see for example Haspelagh, 1979), more acquisitions are the result of divestments by other companies (Boddewyn, 1979), more large transactions are involved, etc.

Several explanations for this development seem logical. During the research, four major reasons for choosing the acquisition route to internationalization rather than to go abroad by de novo establishments were mentioned by most managers. They were:

Time

The time needed to gain a desirable market position and a positive contribution from the new entity seem to be the most important factor that determines why companies prefer to acquire existing companies rather than to establish new subsidiaries. Biggadike (1979), in a study based on the Profit Impact of Market Strategies (PIMS) data base,[1/] shows that new business ventures need, on the average, eight years before they reach profitability. The major reason for this was found to be the high costs of building up market share. When acquiring a company, its existing market share is taken over. Market entry through de novo establishments thus requires a substantial ability to sustain losses, and most important, the willingness to accept negative income figures for a substantial amount of time. In a study by Bane and Neubauer (1980), however, it was found that the risk of exit from a business venture within the first twenty years of entering the venture were less for de novo establishments (25 per cent exits) than for direct acquisitions[2/] (49 per cent exits).

Cost

As noted in the previous section, the study by Biggadike shows that new ventures require substantial ability to sustain losses. Another factor of financial character which also tends to favor the acquisition route as compared with new ventures seems to be that assets often can be acquired at a price lower than their book value, and that the market value of listed companies often is lower than the book

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1/ Data base at Strategic Planning Institute, Cambridge, USA.

2/ Bane and Neubauer distinguish between direct acquisitions and indirect acquisitions, the latter being the acquisition of a foreign subsidiary of a company acquired in the home market. In the latter case, the failure rate was found to be only 15 per cent.

value of their assets. (See for example Rappaport, 1979, and Stonebaker, 1976.) The payback period for acquisitions thus get shorter than for de novo establishments both due to lower initial investment and higher profits after the investment is made. The statement is modified though for the purchase of unprofitable companies and the higher failure (exit) rate for acquisitions.

Management resources

A third factor often mentioned during the research was that although an acquisition draws heavily on available management resources during the acquisition phase, the establishment of a new subsidiary requires a lot more managerial effort if measured over a longer period of time. Although no research has been made on this issue, it seems to be a logical statement. The resources needed to establish new distribution channels, new production facilities, etc, are probably larger than to expand already existing channels and facilities.

Knowledge of local environment

The final factor considered important by mangers was that by acquiring a company on a foreign market, one gets immediate access to knowledge and experience of the local marketplace, its environment and specific features. The cultural differences could also be more easily overcome when an ongoing management is taken over that could communicate with the management of the acquiring company. There is a risk in connection with this too, namely when the cultural differences are so large that cooperation between the acquired and acquiring company is difficult or, in some cases, almost impossible to achieve. This latter issue is discussed in the article Management of the Post-Acquisition Process in Diversified MNCs.

These four factors, especially time and cost, were mentioned to be the most important for choosing the acquisition

route to internationalization rather than to establish new subsidiaries in foreign markets.

The strategic nature of acquisitions

Acquisitions can be classified in terms of their degree of relatedness to the business of the acquiring company. Salter and Weinhold (1979) use the terms related and unrelated acquisitions.

Related acquisitions either imply the entry into new product markets where the acquiring company uses its existing functional skills and resources ("supplementary" related acquisitions), or by acquiring functional skills and resources to the company's existing competence without altering the existing product-market focus of the company ("complementary" related acquisitions).

Unrelated acquisitions on the other hand involve the entry into other product markets than those existing in the company.

The perspectives on diversifying acquisitions by various (strategy, product/market-portfolio, and risk/return) models, all suggest that the more related an acquisition is to the activities and management skills of the acquiring company, the greater the potential benefits of that acquisition to the acquiring company's shareholders (Salter and Weinhold, 1979).

In the case of related acquisitions, the operating benefits (or "synergy") have the greatest potential for improvement of performance. The less related the acquisition is, the more the nature of the potential benefits change. Benefits from general management efficiencies (managerial synergy) become more accentuated, and in the case of a totally unrelated acquisition, only financial benefits (financial synergy) can be achieved.

Thus, one would expect that related acquisitions are by far the most successful if seen from the point of view of creating value for the combined corporation. However, various studies (Kitching, 1973; Alberts and Segall, 1967; Melicher and Ruch, 1974; and Mace and Montgomery, 1962) have shown that this does not always hold. Alberts and Segall, and Melicher and Ruch show that the most common synergy achieved is of financial character. Kitching (1973) obtained the following results in his study:

Table 1. Acquisition Risk in Different Types of Acquisitions

Strategic nature of acquisition	Success	Not worth it (%)	Failure
I. Related			
A. Same customers/ different technology	44.4	16.7	38.9
B. Same technology/ different customers	36.4	13.6	50.0
II. Unrelated			
("Conglomerate acquisitions")	35.4	29.2	35.4

Source: Kitching (1973, p. 62)

Kitching (p. 72) comments the results:

> ... it is clear that the risk of failure increases with diversification. But the corporate strategist has to be aware of a false sense of security that partial (related) diversification gives. Familiarity with either the customer groups, or the production technology, apparently has the effect of lulling companies into the belief that they understand the total business - with results that are more often disastrous than a totally diversified (conglomerate) strategy.

This inherent problem in management of acquisitions will be addressed in the following sections.

It could be hypothesized that the strategic nature of the acquisition (i.e. related or unrelated) affects the nature of the acquisition process, both in the acquisition as well as the post-acquisition phases. Acquisition strategy also forms an important part of overall corporate strategy.

This furthermore increases the importance of the effects arising from varying strategic characteristics of acquisitions.

STRUCTURE OF THE BOOK

The following articles will deal with these issues in more detail. The first article "Corporate Acquisitions and Divestments - the Strategic Decision-Making Process" presents the theoretical framework for analyzing corporate acquisitions which is offered by existing research and literature in the field of strategy formulation and implementation, and thus deals mainly with issues related to the pre-acquisition phase (Chapter 2).

The second article "Strategic Aspects of Post-Acquisition Management in MNCs", as well as the third "Management of the Post-Acquisition Process in Diversified MNCs", both deal with various issues related to the post-acquisition phase (Chapter 3 and 4).

Finally, a summary is made, where conclusions based on the research results are made (Chapter 5).

In the appendix three articles are enclosed. The first, "Board of Directors in Foreign Subsidiaries" (Chapter 6) deals with the role of the boards of directors and the potential factors that can be hypothesized to determine the structure, role and effectiveness of the board, which performs both the role of a device in the integration process as well as of the target for integration. The reason to explore the role and responsibilities of the subsidiary in

depth, is that the board constitutes an important organizational instrument for coordination and control of the acquired entity, and hence is the target for integrative measures. But as mentioned, the board also performs the role of an integrative device, i.e. an instrument used in order to materialize the potential benefits of the acquisition (to achieve synergistic effects), and to integrate the acquired unit into the coordination and control systems used to manage headquarter-subsidiary relationships in the acquiring MNC.

The second (Chapter 7) deals with methodological aspects of the use of case research. This chapter is an attempt to analyze the scientific use of the case method in its various forms. It deals both with the problem of interpretation of data gathered from case research, as well as how different forms of case research can be used. One common form is the comparative case method, which aims at the systematic analysis of differences and similarities between written cases. A second method could be classified as selective; this latter form is based on the comparison between a few representative and comprehensive cases and formal theories. The two methods are usually used in combination with each other. A third method described in the chapter is the use of illustrative cases. The cases are not presented with a strong organic relationship between each other, but are used in order to exemplify the issues explored and analyzed in the text. The method is often referred to as the use of minicases. It is the illustrative case method that has been used in the articles in the thesis.

The last (Chapter 8), "Management of Foreign Acquisitions" is the description of research design and methodology used in the research project. The two latter articles are in Swedish.

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2 CORPORATE ACQUISITIONS AND DIVESTMENTS—THE STRATEGIC DECISION-MAKING PROCESS

INTRODUCTION

Two of management's most important strategic decisions are those regarding acquisitions and divestments. Looking at the results of each type of decision, one could argue that they are only one another's reflected image; but the processes underlying the decisions to acquire or divest business units are different. Acquisitions are more frequently used than divestments as a tool of strategy and as a means for improving a company's financial and strategic position. They often take less time to accomplish than divestments. Acquisitions could be classified as an offensive weapon whereas divestments usually occur in response to severe balance sheet problems such as liquidity problems, too high a debt/equity ratio, etc., or as reactions to mediocre performance.

The purpose of this article is to discuss corporate acquisition and divestment processes based on the experience from three large research projects conducted and financed by the Institute of International Business at the Stockholm School of Economics. The aim is to present a scheme for analysis that may shed new light on the major differences between two types of processes.

The article provides a theoretical framework through which to analyze strategic decision-making processes such as divestments and acquisitions. The discussion should thus be seen as an illustration of the theoretical background presented.

Before analyzing the research findings, however, we shall present a theoretical framework offered by existing research and literature on strategy formulation and implementation.

THE CONCEPT OF STRATEGY - THE THEORETICAL FRAMEWORK

A central concept in management theory and in business policy is the concept of strategy. This article focuses on this concept primarily in the context of diversified companies. Research on the concept of strategy has followed two interrelated aspects: strategy formulation and strategy implementation. The problem of strategy formulation in the diversified company is different from that of the single-business company because of the further complexity and the diversity involved. Corporate management needs a broader concept of strategy in order to make corporate strategy more than just a collection of business strategies. Hanna (1969) is one of the studies wich attempt to define the components of strategy for a diversified company. In this study of three large companies (all of which had grown by acquisition), four major components of corporate strategy were identified:

1. A corporate purpose
2. An overall growth policy with special emphasis on acquisitions
3. A financial policy
4. An organizational policy with special emphasis on motivation

The strategic decision-making process

A great many researchers have tried to describe the process by which major strategic decisions are made in diversified companies. The literature may be classified according to four broad approaches (or schools).

1. The planning school focuses on measurable quantitative factors. It states what should be included in planned strategy, a process usually built up in conceptual steps for strategy formulation. The steps include identification of strengths and weaknesses, threats and opportunities as well as evaluation and choice of alternatives. There are several different approaches, which all tend to focus on measurable quantitative factors and to "underemphasize the vital qualitative, organizational and power-behavioral factors which so often determine strategic success in one situation versus another" (Quinn, 1978, p 7).

Most of the suggested planning approaches focus on the "grand strategy" - a consistent strategy. The existence of the phenomenon of a consistent strategy could be questioned when considering the impact of social and political elements involved in the decision-making process. The approaches are often of a technical nature, with a strong emphasis on the design of the planning systems. Heau (1976, p II-25) pointed out:

> Most of the literature is concerned with providing techniques and procedures. It ranges from checklists to analytical and chronological steps to sophisticated and often caballistic charts where colors, arrows, spatial perspective and planning jargon compete for the reader's attention.

2. The fit school, in which we include for example Andrews, argues that the company should try to reach a fit between the organization and its external environment. This is consistent with the personal values of corporate management and

the social responsibilities of the corporation. This analytical framework represents a normative approach to strategy formulation with special emphasis on the basic character of the firm and the core of its competences. Strategy according to this school is:

> ... a pattern of major objectives, purposes, or goals and essential policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in, and the company it is or is to be.
> (Andrews, 1971)

This approach includes the personal values and aspirations of managers, as well as obligations to stockholders and other segments of society. With the broader view of the concept of strategy, the contribution of this school compared to the planning school, according to Bower, is that whereas Andrews' concept relates to problem solving (involves a process of discovery), the planning versions relate to puzzle solving (logical solutions by different procedures). However, this approach also treats strategy as explicit a priori guidelines. The strategy-maker formulates his strategy through a conscious process before he makes specific decisions.

The planning and the fit schools could be classified as top-down approaches built on the same assumptions, namely, that objectives and strategies are elaborated in a hierarchical manner. How corporate management of a diversified company is able to understand the substantive content of a business unit is left unclear. The complexity of, for example, technology and diversity cannot be understood in technical substance by corporate management.

Corporate management does not necessarily initiate all strategic processes itself. On the contrary, diversity and rapid changes in the environment call for participa-

tion by business unit management. Participation is influenced by corporate management through organizational means in their widest sense, often called administrative systems. Corporate management's handling of the administrative systems in order to affect divisional and subsidiary presidents' participation in strategic decision-making can be seen as meta-management of strategic decision-making (Leksell, 1981).

Andrews explicitly states the strategic dilemma of the diversified companies and the unsatisfactory help from the conscious approaches in order to understand the process of strategy formulation:

> When the range of what must be known exceeds the capacity - as these days it soon does - of a single mind, and when the range of a company's activities spans many industries and technologies, the problems of formulating a coherent strategy get out of hand.
> (Andrews, op. cit.)

3. We get some help from the school which describe the processes as muddling through (Lindblom, 1959). The essence is that organizations make decisions incrementally and try to achieve compromise solutions. Strategic decisions cannot, according to this approach, be treated simultaneously in order to arrive at a holistic optimum, the exact reason being cognitive limits (March, 1958). Strategy is affected by characteristics of individuals (see Cyert & March, 1963; and Zaleznik, 1970), coalitions (Riker, 1962; and Allison, 1971), bargaining processes (Miles, 1978; and Mintzberg, 1976), and power considerations within the organization (Pettigrew, 1973).

Strategy can thus be seen as a series of decisions made in response to urgent problems and power struggles without overall integration among decisions over time. Most studies in this school have, however, been conducted in settings

removed from the realities of corporate management. Usually, the behavioral researchers have not been concerned by positional aspects of the corporate management function, like how to improve profits or where to find growth, areas which represent crucial aspects of strategic decision-making.

4. A quite different approach is outlined by the entrepreneurial school, which focuses on single actors who, in their search for new opportunities, are guided by the entrepreneur's own need for achievement. Drucker (1970, p 10) writes:

> Entrepreneurship requires that the available good people be deployed on opportunities rather than frittered away on solving problems.

It is interesting to note that entrepreneurial leaders seem not to act as integrating devices such as planners and systems controllers do. They are oriented above all towards growth and maintaining a high degree of flexibility. This approach oversimplifies matters, however, by focusing only on the president of the firm when trying to explain how strategic decisions are made.

What can we conclude from this review of approaches to strategy formulation? One point merits special emphasis: in the literature on strategy, planning is the dominant subject. Yet, as Mintzberg (1978, p 52) writes:

> Planning is not a panacea for the problems of strategy making. Some situations require no planning, others only limited planning.

Single strategic decision-making processes

A number of researchers have attempted to describe the process by which strategic decisions are made in diversified firms. The nature and structure of the strategic decision-

making process varies from firm to firm. Each process is unique because political forces, judgements, capabilities and other factors, never identical in any two firms, have to be considered. Bower and Doz (1977, p 10) pointed out that the processes are of a non-routine character and only accidently replicable. Steiner (1977) stated that severe difficulties are inherent in the study of the processes:

> One reason for slow growth of research about decision-making is that the real world is a very messy place. The processes are extremely difficult to reveal and trace and universal generalizations are difficult to discover.

With these shortcomings in mind we will try to summarize some attempts to conceptualize the strategic process in diversified firms.

The word "strategic decision" tends to evoke a picture of a "one-shot" decision (a single point in time and a go/no-go choice). We find examples of many strategic decisions that are results of various minor decisions that might reveal a patter. Aharoni (1966) pointed out that investment decisions are not made at a specific point in time, but rather involve a long process:

> There is no one investment decision made at a specific point in time. Rather it is a long <u>process</u>, spread over a considerable period of time and involving many people at different echelons of various organizations. Throughout this process, numerous 'subdecisions' have to be made. These 'subdecisions' usually reduce the degree of freedom of the decision-making unit and therefore influence the final outcome of the process.

Different attempts have been made to conceptualize administrative frameworks for the strategy formation <u>process</u>, but one must bear in mind the lack of consensus about what the process school is. Bower put it this way:

> It remains hard to discuss the process school because it lacks integration: the authors who might be qualified to discuss it, though familiar with each other's work, have seldom interacted for research in groups larger than two.
> (Bower, op. cit.)

This school of thought focuses on the administrative context (or has directly stated the structural arrangements) of the process, in other words, on the way organizational factors could be managed to shape strategy in diversified companies. By studying the process, researchers have drawn conclusions about how diversity is managed and how strategic decisions are made in diversified companies. One of the first studies of this kind was the research by Berg (1963) on the allocation of strategic expense funds at various levels in a large company. (The company was widely diversified and the mode of expansion had primarily been through acquisitions.) Berg argued that administrative factors were an integral part of the process and pointed to the interdependencies with other systems and processes; other researchers who have elaborated further on these issues are Aharoni (1966), Bower (1970), and Ackermann (1968).

Aharoni studied the foreign investment decisions in large corporations. He concluded that the decision-making process was continuous and of a social character, and identified four influential elements:

1. The structure within wich the activities take place.

2. The participants in the process, their role in the structure, and their personalities, individual values, perceptions and orientations.

3. The interactions among the various participants.

4. The information available to the participants, both through experience and through acquisition of additional data.

Bower examined the resource allocation process in a large diversified firm and developed a descriptive model of that process. The major findings of his work were:

1. The model provides an explicit recognition of several levels of management and the problem of managing diversity in complex organizations, unlike, for example, the model developed by Cyert and March (op. cit.), which does not recognize the existence of different management levels.

2. According to Bower, the resource allocation process consists of two separate subprocesses: definition and impetus. The definition process results from a response by the business unit manager to his perceptions of discrepancies between actual and the minimum acceptable performance. The impetus process determines which investment proposals will be funded.

3. The two processes are shaped by a third process which Aharoni calls the structural context - organizational structure, the systems for measurement and evaluation of performance, and the systems for reward and punishment.

The model employs two key aspects of decision-making - the financial and the techno-economical. The managers involved in the corporate phase are not the same as those in the initiating phase. Bower found that in the highly diversified firm, a third phase - integration - existed between the two levels. The fully developed model is shown in Table 1.

Table 1. The resource allocation process in highly diversified firms (from Bower, 1970)

Process / Phase	Definition	Impetus	Context
Corporate	Aggregate, financial company/environment	Yes / No	Design of corporate context
Integrating	Financial aggregate ↓ ↑ Product/ market strategies	the company "wants" ↓ ↑ the business "wants"	Corporate needs ↓ ↑ Sub-units needs
Initiating	Strategic product/market	"I've got a great idea"	Product/market not served by structure

Ackerman compared the resource-allocation process in integrated firms with divisions within diversified firms using the model developed by Bower. He found that there were small differences between resource allocation processes for incremental investments, but for larger investments division managers had more influence over the definition process.

Gilmour (1973) tested four different models in his research on the processes by which major divestment decisions were made in large firms. He formulated a conceptual framework of a model, consisting of three parts:

- Discrepancy
- Personal commitment
- Organizational commitment

His model is very general and would be applicable to most strategic decisions but represents, however, one of the few attempts to develop a model of the divestment decision process. The first step - discrepancey - stands for the lack of fit between performance and objectives within the firm, often a key manager's personal objectives. If the manager has power to act, then the second step is a personal commitment to the proposed solution of divestment. The organizational commitment results from persuasion of the manager with authority or power to implement the divestment. (See also Marois, 1979 and Porter, 1976.)

The underlying reasons behind divestments have been found to range from an offensive strategic move because a certain business does not fit a redefined corporate strategy - which is not so common - to defensive strategic moves made under financial pressure (poor liquidity or inadequate financial resources) or unsatisfactory performance of the business unit.

Hamermesh (1977) studied corporate level intervention in divisional problems with special emphasis on profit crises. Diversified firms usually have a multilevel structure which hinders the flow of information to corporate management. Bad news is suppressed and tends to reach corporate management very slowly. The formal administrative systems usually do not have the ability to incorporate the necessary information about technological changes in the business sector or increased competitive pressure. The different formal administrative systems influence the content of the information, but they can give contradictory signals; this phenomenon may be classified as administrative ambiguity. Business managers often tend to suppress the necessary information; they can thus act as a strategic filter.[1]

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[1] For further discussion, see Spångberg, K., Strategic Processes in Diversified Firms. Doctoral thesis, forthcoming. Stockholm School of Economics.

Hamermesh also pointed to the cognitive limits of corporate management; this term refers to a lack of understanding of the different product markets and competitive pressures. He held that intervention by corporate management often requires reversal of previous commitments to certain key managers, to organizational structure and to existing strategies. Both organizational and behavioral forces work against a decision to divest. Lack of information, difficulties in analyzing conflicting information and commitments are all major sources of delay.

Capital budgeting theory does not help to describe the divestment process, which could be called a bottom-up approach (see Choudbury, 1977). Capital projects have their source in the business units where they are intitiated and studied, corporate staff screen them, and corporate management selects which will be funded. However, the approach rests on two critical assumptions.

1. It assumes that a capital project can be usefully summarized by a limited number of quantitative measures.

2. It assumes that the choice is the key step.

Already Bower (op. cit.) pointed out the fact that projects are seldom comparable and that they vary for example with the nature of management and business.

An attempt to provide a planning and analytical framework to deal with divestments has been made by Davis (1974). A study by Nees (1978) reveals that no particular model is able to contain the whole reality of the divestment decision process. However, each model does provide a part of a very complex truth. Nees concludes that strategic decision-making processes are of a multimode nature.

The motives behind divestments have been studied among others by Boddewyn (1979). The major motive was found to be financial, but other factors affecting the decisions were identified as well - often a firm will divest a profitable subsidiary that does not "fit". A strategic dimension or organizational and personal factors were found to play a role in the decision. Boddewyn also studied differences between US and European MNCs and found that European companies faced more problems in a divestment process, mainly due to increased termination costs, social factors and union involvements.

Much of the research on strategy has focused on rational quantitative strategic decision-making. Corporate management formulates a strategy which has the purpose of moving the company from one position to another, for example, by an acquisition or a divestment. The complex task of inplementing the strategies is seen as a separate process called strategy implementation, in our opinion a very artificial separation. To view strategy as a result or as an output of a positional approach, as the planning and to some degree the fit approach suggest, seems strange in reality. Bower, Ackerman, and many of the behavioral researchers have pointed out that it does not seem logical to assume that a consistent strategy can be obtained from a process where people are involved in social, organizational and power interactions but in different contexts. The major conclusions of the literature could thus be summarized as follows:

1. A strategic decision is not the result of a rational process; rather, it is the end result of a series of choices made over time by many actors located at various levels, often with different objectives.

2. Corporate management can influence the strategic decision-making process through its manipulation of organi-

zation structure and administrative systems (communication, reward, budget, planning, etc) rather than making substantive inputs to strategic decisions themselves, because they lack product-market understanding on the business level.

RESEARCH FINDINGS

As discussed earlier, one common hypothesis is that strategic processes are more or less structured in the same way. In the research projects mentioned, it could be seen that this is not so and that at least in some respects single strategic decision-making processes differ from one another.

The comparisons are based both on data gathered within the frames of the research projects just mentioned, where in total nine large Swedish MNCs were investigated over a three to ten-year period of time. The data also includes in-depth studies of in total thirty-five subsidiaries located in sixteen countries. In addition, two questionnaire studies were carried out. The first one included data from twenty-five MNCs having undertaken at least two acquisitions, one abroad and one in the home country between 1975 and 1979. The study aimed at obtaining data on both acquired subsidiary and the acquiring parent. The second one studied twenty-two companies having undertaken at least one major divestment between 1970-1979.

Some of the acquisitions studied were the result of divestment decisions by the selling company and/or shareholders. In the project "Management of Diversified Firms",[1/] a selected number of strategic decision-making processes were being

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1/ For a description on research methodology and desing, see Appendix to this article.

studied whereof one was divestments. (Other processes were acquisitions, restructuring activities and others.) Data obtained through studies of these processes form the basis of the comparative analysis presented in this paper. To further improve the quality of the comparisons between the processes, new interviews were made with top managers in the groups participating in the projects previously mentioned, this time focusing only on the two strategic decision-making processes in terms of a limited number of dimensions over which to make the subsequent comparisons. This additional data-gathering process also improved the reliability of the case-based selection of the dimensions, by asking managers to present their view on what issues they found most crucial when describing the nature of the decision-making processes. These so called critical issues were compared with the case studies from the research projects.

To be able to obtain some meaningful distinction in the way the two strategic processes differ from each other, we have chosen to describe the differences when applied to a certain number of dimensions in the processes mentioned. These dimensions follow to some extent the chronological order (in a broad context) of different stages in the processes. First, we look at how signals of a need or an opportunity to undertake a strategic change are brought to a company's perception. In connection with this, we also compare motives behind an acquisition decision as compared with a divestment decision. One interesting issue is who takes the initiative to start a strategic process of the kind we are discussing and where in the organization this person(s) is acting. Initiative is closely associated with the role of different administrative systems in the way information is obtained as well as communicated during an acquisition or a divestment process. Finally, a comparison of the time needed and consumed before the process is completed

is made. Of course, one could continue the comparisons and apply the same analysis to other issues in a process as well, but we have chosen to limit ourselves to those mentioned above. Our prime objective is thus to illustrate the fact that differences do exist by showing examples of how these differences can occur and that these differences can be grasped within our framework.

Signals

Let us start by looking at how signals to initiate a strategic process can differ between acquisition and divestment decisions. The research data seem to imply that such differences are mainly connected with whether or not the signals originate within the company or outside it.

Acqusitions

Signals that show the necessity or opportunity to undertake an acquisition have been found to originate both internally and externally to the company. External signals often seem to be connected with opportunities to undertake an acquisition - that is, som external source (i.e. a bank, a consultant, or someone else) has learned that another company is for sale or could be bought and knowing that the company could benefit from an acquisition of this kind, informs the latter about the potential acquisition candidate. Consider the following example:

The group treasurer of company A was called up by a bank representative late one evening and informed that a US company had started to repurchase its own shares from an institutional investor, holding almost 30 per cent of the company's stock, thereby making it possible to acquire the company by presenting a tender offer to the remaining shareholders. The next morning the treasurer presented the information to the president, who brought the matter up to the board for formal approval.

Many similar cases were found during the research. In one case a company was contacted by a brokerage firm in Switzerland, who, in a way similar to the above, revealed that a French company was for sale and that it probably would fit into the company's existing portfolio of businesses.

Internal signals have been found to be more common in those cases where acquisition planning is done in a formalized way - one company in the study even used a formal reporting system at the subsidiary level to communicate local acquisition candidates.

We have also seen examples of more or less formalized screening processes and what one could describe as a list of potential acquisition candidates.

In the questionnaire study it was found that acquisition opportunities were identified as shown in Table 2.

Table 2. Identifying acquisition candidates

By	% of cases
Continuous search process	59
Use of opportunity	41
	100

Often the existence or lack of stated acquisition policies is a determinant of how signals are brought up - we will return to that when discussing motives behind acquisitions as compared to divestments.

Divestments

If signals for acquisitions were found to be of both internal and external origin, divestment signals most often seem to originate internally. Of course, there are exceptions - in some cases companies who have never considered selling a particular division are contacted by others who offer to buy it. But in most cases the signals come from within the company. Often a divestment decision seems to be the result of a longer period of poor profitability or of mismanagement at the divisional or corporate level of either the divested unit or some other unit. Many divestment decisions occur after the chief executive officer of the company is replaced. A new CEO, especially if externally recruited, may lack the emotional resistance to initiating a divestment process and be more open in his perception of what actions he thinks necessary.

An example: company B consisted of ten divisions in 1976, of which three had shown negative results for more than five years. No serious attempts had been made to sell any of the divisions - instead, a number of measures had been taken to improve profitability in the divisions mentioned, including reallocation of cash resources from profitable divisions. In 1977 a new chief executive officer was appointed. Among his first actions was the establishment of new financial goals for the divisions and for the group as a whole. It was rather obvious that the only way to achieve these goals was to sell one or more of the unprofitable divisions. One division was sold in 1979 and another was partly sold off a year afterwards. The chief executive officer commented on the divestments in the following way:

> I regarded it as the only realistic solution to the problem - the division had been unprofitable with only a few exceptions since 1973 and its markets were mature or stagnating. Of course, I contemplated the possibilities of keeping the division and

> what necessary actions needed to be undertaken in such a case, but could not find any way in which our group could succeed in that. The divestment of division X was therefore decided upon in 1978.

Motives

The motives behind acquisitions, on the one hand, and divestment decisions on the other, are different by definition in that one implies an expansion of existing activities, the other a contraction. But one distinct difference between the two processes in terms of offensiveness in policy can be identified.

Acquisitions

In all the cases we have been studying, acquisition decisions have been guided by offensive motives, such as expansion in a related business, diversification or internationalization. We have not found any case where an acquisition has been made for defensive reasons. Many examples could be given, but we limit ourselves to two:

Company C bought an American company in 1976 with the objective of entering the US market. The acquisition gave access to a well developed distribution network which could also be used for C's own products. C had established an acquisition policy which characterized both the purpose of acquisitions as well as a potential acquisition candidate (i.e. profitable, growing market, etc).

Company D in a high technology industry decided in 1975 to diversify into unrelated industries with a lower degree of technology. They chose to enter the leisure wear product industry by acquiring a couple of companies there.

In the questionnaire study companies were asked to describe the major motive(s) behind each acquisition. The results are shown in Table 3 below.

Table 3. Motives behind acquisitions

Motive	% of cases
Market share	59
Growth	38
Distribution network	24
Technology	16
Brand name	14
Cash flow	14
Others	22
Total	187

Divestments

Divestment motives have been found to be more defensive in character. Here, the primary aim is often to divest divisions or subsidiaries which are unprofitable - it is not so much a pure portfolio decision. Portfolio divestments have been found in a few cases where companies do divest divisions in an offensive action aiming at improving portfolio efficiency. Those are exceptions - normally the motive is poor profitability. The signals of poor profitability often come through the regular information system (a topic which will be discussed further on). A group executive vice president in a company expressed it in the following way:

> A divestment is something we do not want to initiate - however, when absolutely necessary we do not hesitate. Divisions that are unprofitable in our hands may very well be turned around into profitable units by someone else with the right structure and capabilities. Prolonging a hard and often emotionally distracting process, pretending improvement always lies behind the next corner is to fool both yourself and the people indirectly involved.

In the questionnaire study, companies were asked if they considered divestments as a potential offensive move (e.g. a portfolio decision) or not. The answers could be summarized in a table:

Table 4. Divestments as an offensive tool. Could divestments be used as an offensive tool?

Answer	% of cases
Yes, to a large extent	77
Yes, to some extent	23
No	0

The results indicate that all companies consider divestments to be a potential offensive tool. However, when asked to describe the motive(s) behind divestments, it became clear that in the majority of cases, defensive motives lie behind a decision to divest. We have classified the motives into five major categories, four of them of a defensive character, and one being of an offensive character ("opportunities external to the existing portfolio"). The results are shown in Table 5 below.

Table 5. Motives behind divestments (one or more alternative possible)

Motive	% of cases
Poor performance and/or future earnings potential	68
External threats	64
Bad "fit" between divested unit and rest of the group	77
Problems within the group, but outside the divested unit	27
Opportunities external to existing portfolio	59
	295

Initiative

A company may have a more or less formalized information and/or planning system leading to strategic actions. In

such cases, regardless of the nature of motives and how these are communicated in the company (i.e. written policies, tradition, etc), we have often been able to track down a strategic process as to who initiated it and also where in the company it originated (i.e. division, subsidiary, etc). The picture is not totally clear when it comes to describing all processes, but some rather distinctive differences seem to exist. These differences were often mentioned during the interviews made with top management in the companies under study.

Acquisitions

By initiative we mean that someone after having identified an opportunity to buy a company or realized the necessity of selling a division etc brings the matter to some other person's attention and thereby initiates at least a preliminary discussion about an eventual action. When it comes to initiatives for undertaking acquisitions, these seem (in most cases) to originate from levels beneath corporate level. Most common are cases where divisions or subsidiaries (and to some extent corporate staff engaged in business development or strategic planning) initiate the process.

The results from the questionnaire study show the following:

Table 6. Level of initiative to acquire

Level	% of cases
Corporate	27
Division	33
Subsidiary	24
Acquired company	16
Total	100

Our impression is that whether an initiative is to come from the division or subsidiary level often depends greatly on the character of the division or subsidiary president. If this person upholds a strong position, it is more likely that he will succeed in achieving acceptance for his proposals. An example:

A division of company E bought a French company in 1979. It was the first foreign acquisition made by the division, whose activities were located in the Scandinavian countries. Corporate business development staff informed division management that a company was for sale. No strategic plan regarding acquisitions had been established for the division at the time. It was the intention at the corporate level, however, to expand the division's activities abroad, and a first step would be to acquire a company in Europe. Responsibility for handling the acquisition process lay at the divisional level; the division president had personally proposed the acquisition to group top management after the message from the business development staff had been received.

In general, the data show the impact of entrepreneurial leadership in acquisition programs. Often, an entrepreneur by his own leadership style influence the rest of the organization to act in what might be called an "entrepreneurial acquisitive mode".

Divestments

In almost all cases of divestments we have studied, the initiative to divest comes from top management, often from the chief executive himself (and often in connection with a change of CEO as mentioned earlier). It is rather obvious that this is the case, as it seems unlikely that a division president should propose to corporate management the sale of his own division (at least to an external buyer). The initiative has also been found to originate from the corporate

board of directors, which instructs the chief executive officer to investigate the possibilities of divesting a specific division.

The results from the questionnaire study show the following:

Table 7. Level of initiative to divest

Level	% of cases*
Board of directors	23
Corporate level	100
Division level	23
Divested unit	14
External consultant	0
Buyer	18
	178

* In some cases the initiative was brought up jointly by two or more levels.

The role of the administrative systems

During the research we have found very few cases where administrative systems have been designed to directly include strategy formulation. Instead, some parts of the administrative systems play a role in providing management with information on needs and/or opportunities to undertake strategic changes in accordance with the information obtained. Briefly, the data show some basic characteristics for the different systems.

Planning system

A medium to long-range planning system may in some cases include plans for either acquisitions or divestment decisions. However, we have not been able to find any formalized divestment planning system and only a few examples of formalized acquisition planning through the use of reports

or plans, and these have been more of a reporting nature than plans in a true sense. Many of the companies in the study worked with the assistance of large consulting firms employing common tools for portfolio positioning and recommendations regarding the benefits of acquisitive or divestment actions.

Reporting system

As mentioned above, reporting systems in some cases have been found to include formal reporting on potential acquisition candidates, primarily at the subsidiary level. But these are exceptions - normally, there seems to be no formal reporting of acquisition proposals in the companies under study.

Reporting naturally plays a different role when it comes to divestments - reports containing information on performance and on market characteristics often form the basis for a decision to accept no further decline in profits and/or growth.

Budgeting system

The budgeting system does not seem to play any truly important role in either the acquisition or the divestment process, except for the divestment as mentioned above, where the system provided the CEO with information of performance in relation to plan etc. An important factor seems to be how the various systems are used, i.e. if they are used following a bottom-up or a top-down approach. Generally, the top-down approach has been found to be closely related to a higher degree of centralization of decision-making as well as with a policy towards more detailed information requirements and a more close follow-up of subsidiary and/or divisional performance. In these cases the administrative systems play a more important role when it comes to strategic planning and strategy formulation.

To conclude, we have not found any significant number of cases where the structure of the administrative systems could be said to provide the structural arrangements for strategy formulation processes in a direct way - indirectly they play the role of providing decision-makers with the necessary information to start initiating processes aiming at strategic changes.

Time frame

In general, it seems that the time needed to undertake a divestment is much longer than to make an acquisition. Once again, there are exceptions, but as divestment processes tend to be more painful and emotionally unsettling, more time is needed for the CEO to develop the decision in the organization. We have seen acquisition processes ranging from one day up to over a year before completion, whereas in no case has a divestment process lasted less than half a year. Of course, these are very rough figures, but they show in a broader sense how the two types of decisions are related. For a more detailed description of time devoted to acquisition programs, see Lindgren (1980).

In the questionnaire study, companies were asked how much of the time used by top management to strategic planning that was devoted to acquisitions as compared to divestments. The result is shown in Table 8.

Table 8. Time devoted to acquisitions as compared with divestments

Time devoted	% of cases
Much more	0
More	9
Equally much	50
Less	32
Much less	9

It should be noted, though, that when asked to comment on the results, managers in the responding companies stressed the fact that divestments are much more of a non-routine activity, and hence not part of the normal planning process, but that a divestment, when it was considered to be undertaken, tended to take much more of top management time than in the case of a considered acquisition.

SUMMARY

The purpose of the article has been twofold. First, to present a theoretical framework through which to analyze strategic decision-making processes such as acquisitions and divestments. Second, we have presented a scheme for analysis that may shed new light on the major differences between the two types of processes.

The conclusions of the theoretical review could be summarized as follows:

1. A strategic decision is not the result of a rational process; rather it is the end result of a series of choices made over time by many actors located at various levels, often with different objectives.

2. Corporate management can influence the strategic decision-making process through its manipulation of organizational structure and administrative systems rather than making substantive inputs to strategic decisions themselves.

Divestments and acquisition processes were compared over a number of dimensions. It was shown that differences exist between the two types of processes. The scheme presented thus allows us to analyze these differences which may lead to a better understanding of how strategic decisions are made in diversified companies.

APPENDIX

Research methodology and design

The empirical data for this study were generated from three different research projects, all of them conducted and financed by the Institute of International Business at the Stockholm School of Economics.

The first project, called Management of Foreign Operations, is based on in-depth studies of six Swedish multinational corporations. Within each MNC four foreign affiliates were selected according to a secondary set of expected contingent variables. The four most important selection criteria were: 1) ownership structure, 2) geographic location, 3) manufacturing subsidiary, 4) strategic importance for the corporation as a whole. To study the managerial processes and the relationships in action, "critical issues" were selected in each subsidiary. Parallel to this approach, functional and general questions were asked about these processes and about the management of the MNC as a whole. In total, twenty-six subsidiaries in twelve countries were studied. The research team consisted of Anders Edström, Gunnar Hedlund, Laurent Leksell, Ulf Lindgren, and Lars Otterbeck.

The second research project is called Management of Diversified Firms; it is an intensive study of a limited number of firms (two). The variables involved in the work were: strategic changes and their management, structural arrangements, the environment and the strategic situation of the firm. A considerable number of in-depth interviews were made at the two companies and were combined with comprehensive study of written documents and other external and internal materials.

The project group consisted of Kjell Spångberg and Jan-Erik Vahlne.

The third project, finally, is called International Acquisitions. The research design in this project is based on comparative case studies. Environmental and structural variables have been controlled to the extent possible. In total, five Swedish multinational corporations and eleven acquired subsidiaries were studied. This study was combined with a written enquiry to twenty-five Swedish companies which have acquired at least one company in Sweden and one abroad since 1977, with the questions concerning the planning, implementation and integration of the acquired companies and relating these matters to contingency factors in both the acquired and the acquired companies.

Project leader was Ulf Lindgren

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3 STRATEGIC ASPECTS OF POST-ACQUISITION MANAGEMENT IN MNCs

INTRODUCTION

Various studies[1/] have been devoted to the strategic aspects of acquisitions. They have mainly focused on the formulation of acquisition strategies or on the actual implementation of strategies for acquisitions. Strategic motives have been identified that guide acquisitions both domestically and internationally. The purpose of this article, however, is to study the integration process that takes place once the acquisition is successfully negotiated and the acquired company becomes a subsidiary to the acquiring group, and thus to describe the nature and structure of the integration processes included in the study. The specific nature and structure of each acquisition process will then be analyzed in the context of the amount of integrative effort devoted to integration work, and the complexity of the integrative devices used in order to achieve the strategic objectives for the integration process, as established by top management in the overall corporate strategy of the firm. The role of top management in the various stages of the process will also be discussed. Differences and variations between the processes studied will be analyzed to see which determinants that seem to explain the variations.

[1/] See for example Ansoff and Weston (1962), Kitching (1967) and (1974), and Björksten (1965).

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ACQUISITIONS AND DIVERSIFICATION

Much of our understanding of the role of diversification in the development of the firm has been gained through Chandler's (1962) study of diversification in American industry during the period 1920-1960. Chandler showed that the divisionalized structure of a firm revolved in response to its expansion into products and markets through internal development, as well as through acquisitions. His work suggested a developmental model of the firm, based on the managerial choice of strategy and structure. Chandler distinguished certain growth strategies that were the most important for the long-run survival of the company. These strategies were classified as expansion of volume, geographic dispersion, vertical integration, and product diversification. Chandler showed how each strategy implied a specific form of organizational structure. He found that when companies diversified, they were faced with administrative difficulties with the existing functional organization and thus choose a divisionalized structure. His findings concerning the relationships between different growth strategies and their impact on the firm's degree of diversification and its organizational structure have been confirmed by a large number of studies by other researchers (see e.g. Wrigley, 1970).

1/ For a thorough description of research method and design, see Appendix III of the thesis.

A scheme attempting to capture the strategy of the firm regarding product diversification was developed by Rumelt (1974). Diversification strategies were classified in the following main categories:

Single Business Firms: firms which have not diversified.

Dominant Business Firms: firms which are primarily committed to a single business but have diversified to a small degree into product markets outside its main business area.

Related Business Firms: firms which have expanded into new areas, bearing either a technological or market relation to current activities.

Unrelated Business Firms: firms which have diversified without regard to current activities.

Rumelt documented that, over time, firms tend to evolve from a single business strategy to one of a more diversified nature. A large number of studies, using the same classification scheme, have demonstrated a trend towards diversification in other countries including Great Britain (Channon, 1971), France (Pooley, 1972), Germany (Thanheiser, 1972), Italy (Pavan, 1972), Japan (Hami, et al., 1972), and South Africa (Andrews, 1980). A study carried out on Swedish industry showed the same pattern (Eklöf, Rolander, Åman, 1980).

Basically, two main ways to diversify can be identified; a company can diversify either through acquisitions (external diversification), or through internal development of its existing activities through the establishment of new business ventures. Diversification through internal development is carried out by relying on existing competence and resources. This approach usually takes several

years to accomplish, while acquisitions as a means of diversification can take days rather than years to execute. It also implies a longer period of negative profitability, thus imposing a financial strain on the investing parent company (see Biggadike, 1979).

To acquire firms as a strategy for growth is not used only to save time but also as a means to reduce cost of entry and risk of entry, as noted by Salter (1979). This is especially true where intangible barriers to entry exist: e.g. R&D skills, management knowhow, distribution network.

STRATEGIC ASPECTS OF ACQUISITIONS

Motives for acquisitions

A large number of motives for companies to acquire exists. The buyer's motives vary from a search for monopolistic power and growth (Gort, 1966), desire to respond to a low level of profitability in the existing portfolio of businesses (Conn, 1973), improvement of market position, filling out product line, protection of supply or distribution, gain of control, to acquire what is available, to internationalize, or to reduce risk. The acquisition route to international expansion has become very common among companies from various countries during the last decades. In a study presented in Lindgren and Spångberg, 1980 (I, p.17) the major strategic motives behind acquisition of subsidiaries were found to be the following:

Table 1. Motives behind acquisitions

Motive	% of cases
Market share	59
Growth	38
Distribution network	24
Technology	16
Brand name	14
Cash flow	14
Others	22
	187

(The table shows the relative frequency of the major strategic motives mentioned - in certain cases more than one motive was regarded as being of major importance; the total relative frequency therefore exceeds one hundred per cent.)

For a thorough investigation of the individual motives for the buyer and the seller, see e.g. Kitching (1973), Haspelagh (1979), Hovers (1975), Meeks (1977), and Sperry (1972).

Creation of value

The concept of strategic fit is central in the area of strategy in general, and in acquisition analysis in particular. The concept, however, is difficult to operationalize. Fit can be said to exist if it is possible to transfer resources between businesses, and is supposed to exist if the combined return on a company's resources is greater than the sum of each of its parts if taken separately - that is, what usually is referred to as synergy. Three major types of synergy can be achieved in diversified firms (Lorsch & Allen, 1973). They are:

- Operating synergy: the creation of links among business units either in terms of actual market and/or technical interdependence or in terms of the cross-pollination of marketing and/or technical skills.

- Financial synergy: the enhanced ability to obtain external funding and capacity to deploy capital internally among the most promising of a wide range of business ventures.

- Managerial synergy: the ability to develop and effectively apply both managerial skills and techniques to units which, if operating on their own, either could not afford or would not be motivated to do so.

The creation of value thus implies the realization of potential synergy. The notion of value for shareholders is derived from financial theory: value is created for shareholders when the combination of resources and skills of two units leads to either:

- A combined income stream greater than the total of the separate streams that could be realized in the two units (higher return with the same risk).
- A reduction in the variability of the income stream for the combined company greater than that which could be realized from separate portfolio investments in each of the two units (lower risk with the same return).

Strategic nature of acquisitions

Acquisitions can be classified in terms of degree of relatedness to the business of the acquiring company (see Salter & Weinhold, 1979). The classification follows the concepts developed by Rumelt (see p. 47).

Related acquisitions either imply the entry into new product-markets where the acquiring company uses its existing functional skills and resources ("supplementary" related acquisitions), or by acquiring functional skills and resources to the company's existing competence without altering the existing product-market focus of the company ("complementary" related acquisitions).

Unrelated acquisitions, on the other hand, involve the entry into new product-markets than those existing in the company.

Related business companies have greater potential to gain operating synergy, since there is a fit in an operational sense; one would then expect that operating synergy has

the greatest potential for creating value. Examples can be potential scale effects and overhead spread over large volume, a common distribution network, increases in manufacturing efficiences, research and development carry-over between different products, or improved skills in an area critical to success in a particular business.

The materialization of potential benefits by bringing two businesses together to achieve a greater entity than the sum of the individual parts, usually requires a certain choice of organizational devices. Unrelated business firms have usually chosen the divisionalized form (Horvath, 1976), and it is therefore less likely that a "misfit" in the post-acquisition phase will occur (Madsen, 1980). For related MNCs, the objective becomes to obtain the potential coordination benefits identified in the pre-acquisition phase, which can be achieved through the use of various integrative devices, i.e. instruments, systems, and methods used in order to implement the changes in existing systems and routines in the acquired company which are necessary in order to achieve synergy.

If financial synergy is achieved, it indicates that diversified MNCs are more efficient allocators of resources than the market. The synergy could take place for financial reasons, for example by the use of more efficient cash management routines, by reduction of the cost of capital of the firm, and by the cross-subsidization of financial resources between units. This can lead to a larger income stream than available from a portfolio diversification (of an individual investor). The tax law, however, penalizes transfers of capital from one business to another outside the jurisdictional boundaries of the firm. Berg (1969) points out the possibilities of tax-free transfer of funds between divisions in diversified companies, and thus, the potential realization of financial synergy.

In order to materialize financial synergy, it is often necessary to have a surplus of management skills. Therefore, financial and managerial synergies can be regarded as interrelated (May, 1968, and Searby, 1975). Vance (1971) criticizes the use of the concept of financial synergy by arguing that value is not created but rather transferred between business units.

Drucker (1966) also expressed disbelief in financial synergy and argued that every acquisition needs structuring, before results can be achieved. Pure financial manipulation can never substitute purposeful management.

A common perception is that unrelated diversified firms have an inherent disadvantage in their acquisition strategies - in the long run, presumably, one cannot manage something one does not understand. This should be modified to a certain extent.

The acquisition strategy used by diversified companies with unrelated businesses is usually based on the perception of superior management. This management skill is said to be used in order to revitalize the acquisition candidate by rationalization and divestments of businesses without future potential, and to identify segments which can be profitable in the long run. However, if unrelated diversified firms integrate too much and give too little autonomy, there is a greater risk that their financial performance will be poor (Lorsch & Allen, op. cit., and Spångberg, 1981).

STRATEGIC ASPECTS OF THE FOREIGN ACQUISITION PROCESS

What has been said above refers to acquisitions in general. When applying it to the process of managing a foreign acquisition, certain clarifications may be necessary. Basically, the distinction between related and unrelated acquisitions holds also in the case of a foreign acquisition, that is, the extent to which the acquired subsidiary's activities

at the time of the purchase were related to those of the acquiring MNC. But it is worthwhile to examine in greater detail how the motives are differentiated in related as compared to unrelated foreign acquisitions. This would enhance the ability to better understand differences in how the integration process is managed in various firms.

From Table 1 above, we can see that the major motives for acquisitions mentioned by the companies in the study could be divided into two main groups, one group consisting of motives directly requiring the realization of operating synergy, either in production and R&D (technology) or in marketing (distribution network, brand name). The other main group of motives does not per se seem to directly imply the realization of operating synergy. Market share, growth and cash flow, could all be acquired without obtaining synergistic effects in operations between acquiring and acquired company. On the other hand, which is indicated by the total relative frequency exceeding one hundred per cent, two or more motives can be pursued simultaneously. Market share, growth and cash flow are all interrelated with the other motives mentioned. Instead, the research findings seem to indicate that the strategic objectives for any acquisition are related to the degree to which the operating systems of the acquired subsidiary are to be integrated (changed or newly established) with those of the acquiring group. In some cases, operating systems are not integrated at all; the motives for the acquisition could either be a pure financial investment or, for example, to establish a platform in a local market for future further expansion. An important aspect of the potential for integration of operating systems is whether or not the acquiring group already owns a subsidiary in the country. If so, the potential of realizing operating synergy could be assumed to be larger. This issue will be further explored in the article.

The degree of relatedness between acquiring company and acquired subsidiary thus determines the nature and structure of the integrative process. Integrative work is mainly divided between the integration of two different sets of systems in the acquired subsidiary. On the other hand, administrative, organizational and social systems are integrated (i.e. reporting systems, budgeting and planning systems etc), on the other hand, the operating systems of the acquired subsidiary (i.e. production operations, marketing operations, R&D activities etc) are also integrated. The extent to which the operating systems of the subsidiary are integrated could be hypothesized to be related to the strategic motives for the acquisition, i.e. if the goal is to get access to a distribution channel in the country, distribution methods, promotion activities etc could be assumed to be changed. If the objective is to get access to production facilities in the country in order to produce the acquiring company's products, the production processes in the acquired company will be changed accordingly. The acquiring company may wish to achieve certain amounts of operating synergy, but operating synergy can only be achieved in acquisitions of companies within business areas related to those of the acquiring group. Therefore, one could hypothesize that acquisitions of companies within business areas unrelated to those of the acquiring company will not aim at achieving operating synergy and hence not to integrate the operating systems of the subsidiary.

To summarize, the problem could thus be formulated such, that although related acquisitions are by far the most successful, if seen from the point of view of creating value for the combined corporation, various studies (e.g. Kitching, 1973; Mace and Montgomery, 1962) have shown that this does not always hold. The risk of failure tends to be much higher in related acquisitions than what is the case for unrelated ditos. The objectives of the integration processes are also different. The less related the acquisition is,

the more the nature of the potential benefits change, and thus the nature and structure of the integration work aiming at achieving these benefits. Benefits from general management efficiencies become more accentuated, and in the case of a totally unrelated acquisition, only financial benefits can be achieved. It is the purpose of this article to analyze how the strategic nature of an acquisition (i.e. related/unrelated) affects the nature and structure of the integration process, that is, how the objectives for integration work vary with the degree of diversification in each specific acquisition.

The strategic motives underlying the acquisition will be used as the goal variable and the nature and structure of integrative work will be measured against the degree to which the objectives were obtained. The question of whether or not the goals were efficiently established is not the focus of this article. They shall be taken as given, and instead the focus will lie on how the companies have managed to achieve them. First, a summary of the research methodology and design used in the research project from which the data is generated is made in the following section.

RESEARCH METHODOLOGY AND DESIGN

Sample of MNCs

The research design was based on comparison of intensive case studies. In total, five Swedish multinational corporations have been investigated over a two to five year period.

Table 2 describes the sample of MNCs along some summarized key dimensions. The descriptions are primarily relative to the other firms in the sample. The names of the MNCs and the industries in which they operate have had to be kept anonymous.

Table 2. Summary characteristics of the sample of MNCs

Characteristics \ Company	A	B	C	D	E
Degree of diversification	Related	Unrelated	Dominant[a] Unrelated[b]	Related	Related
Technology intensity	High	Low	Low[a]	Intermediate	Intermediate
Industry structure	Oligopoly	Fragmented	Fragmented[a,b]	Oligopoly	Oligopoly
Degree of internationalization	Medium	Medium	Very high[a,b]	Medium	High
Barriers to entry	High	Low	Medium[a]	Medium	Medium
Intensity of scope of competition	High Global	High Local	Low Local[a]	High Global	High Global
Total size in terms of sales	Over USD 250 millions	Over USD 1 billion	Over USD 1,5 billion[b]	Over USD 750 millions	Over USD 2 billions
Organizational interdependence	High	Low	Low[a]	Medium	High
Formal organization structure	Global product divisions	Global group of product divisions	Global product divisions[b]	Global group of product divisions	Global product divisions
Organizational level where acquisition was made	Corporate/ group division	Corporate/ group division	Division	Division	Division
Earlier experience of international acquistion	Very low	High	High[a,b]	Medium	High

a = division, b = group data

Diversification has been classified according to a simplified version of Rumelt's typology (Rumelt, 1978). Technology intensity relates to the technological level of the major product lines. Barriers to entry are high in company A because of advanced technology content of their products. The reason for classifying barriers to entry as medium high in company C, D, E is either because of capital-intensive production and/or a monopolistic market situation in some local markets.

Regarding interdependence, Thompson's classification scheme (Thompson, 1968) has been used. Companies A and E have a high degree of interdependence of a sequential nature, whereas interdependence is low in company B and C with pooled relationships, and has been classified as intermediate in company D, with sequential interdependent relationships.

All companies have an organizational structure with global product divisions. In two companies, B and D, smaller product divisions have been organized together in what is called group divisions, i.e. a large division consisting of two or more product divisions.

Sample of subsidiaries

Within each MNC, two acquisitions made between 1975 and 1980 were selected. However, this ideal design only applied to company A. In company B three subsidiaries were beint studied. In company C four acquisitions have been studied. One took place in 1972 but was regarded as very important for the whole group and was therefore included in the study. The other three companies were acquired in one transaction and from the same seller. It was regarded as essential to study all three at the same time.

In company D and E it was decided to exclude one acquisition in each company from the analysis for various reasons. In

company D the integration process was at a very sensitive stage and the company judged it impossible to allow an investigation at this specific point in time. In company E only one acquisition that fitted into the design had been made.

The acquired subsidiaries studied could be summarized as follows:

Table 3. Sample of subsidiaries

Acquiring	A	A	B	B	B	C	C	C	C	D	E
Acquired subsidiary	1	2	3	4	5	6	7	8	9	10	11
Size (turnover in M USD)	1	1,5	225[d/]	50	4	12	2,5	4	23	8	12
Ownership share (%)	100	100	100	100	100	54	54	54	100	100	100
Geographic location[a/]	I	I	I	I	D	D	D	D	I	I	I
Former ownership structure[b/]	D	F	P	PC	F	D	D	D	PC	F	D
Strategic nature of acquisition[c/]	R	I[e/]	R/UR[f/]	R	R	I	I	I	R	R	R
Existing subsidiary in the country before acqusisition was made	YES	YES	YES	NO	NO	NO	NO	NO	YES	NO	YES

a/ I = industrialized country
D = developing country (according to UN classification)

b/ D = not public; former division or subsidiary of selling company
F = family-owned company, private
P = public company, stock traded publicly
PC = public company, stock traded, but concentration of ownership to a few owners

c/ R = related business area
UR = unrelated business area
I = identical business area

d/ Total company turnover. Turnover of division (X) was M USD and of division (Y) M USD.

e/ Purchase of two divisions, X and Y. X was related (R), Y unrelated (UR)

d/ Identical business area, but characteristics of the product different due to the chemical composition of the raw material.

Data collection

The primary method of securing data has been through interviews and the study of internal company documents. Interviews were conducted with nearly all corporate functions and with senior corporate or divisional managers who were involved in the acquisition processes. Moreover, all acquired subsidiaries (with the exception of C6, C7, C8, and C9, where interviews were made with subsidiary managers during their visit to corporate or division headquarters) were visited. Research results have frequently been discussed with the participating companies.

Data analysis

For a thorough treatment of research methodology and analysis, see Appendix.

MANAGING THE INTEGRATION PROCESS

The nature and structure of the integration process

The purpose of this article, as earlier stated, is to explore the nature of the post-acquisition process (i.e. the integration process) and to describe it in terms of integrative effort and complexity. We will also examine how variations in the factors mentioned above are related to differences observed in the various acquired subsidiaries, as well as differences between the groups of companies under study. Thereby one could hopefully draw conclusions as to how the integration process is managed in MNCs under various conditions. First, however, it is necessary to describe the nature and structure of the integration process.

In this article, the concept of integration refers to the process through which changes in various systems in the acquired subsidiary are undertaken. It is not the state in which the subsidiary is, after all integration activities

have been carried out, although at times this is said to imply that the subsidiary is "integrated" into the acquiring group. The focus here lies at the mechanisms for change being used and how they are related to the various objectives for the integration process as set up by the management in acquiring the subsidiary.

Parts of the integration process are formalized to the extent that they imply changes of existing routines and systems or establishing new such routines and systems. This formal process is primarily connected with the administrative, organizational and social integration of the subsidiary. Other parts are primarily connected with the decision-making processes in the group, that is, how decisions are made and communicated. This latter aspect of the integration process also includes the formulation and implementation of strategy for the acquired subsidiary. The article focuses primarily on the formal aspects of the integration process, and the part of integration work related to decision-making is discussed in connection with the various parts described.

As mentioned earlier, management of integration of acquired subsidiaries could be divided into two major categories of integration activities. One is the integration of the existing administrative, organizational and social systems of the acquired company into those of the acquiring MNC, that is, altering routines such as reporting systems, budgeting and planning systems, as well as formal communication channels and reward systems, and establishing new routines and systems. Although a time-consuming process, this form of integration took place in all the acquisitions under study. The integration of operating systems (i.e. production, marketing, R&D, etc) will be dealt with below, p. 70).

INTEGRATION OF ADMINISTRATIVE AND ORGANIZATIONAL SYSTEMS

The integration of administrative and organizational systems implies changes in the existing systems of the acquired subsidiary, as well as the introduction of new, previously non-existent systems in the subsidiary. Administrative and organizational systems could be defined in many ways (e.g. coordination and control systems, structural arrangements, etc). Usually, the concept includes a number of subsystems. These are:

- The planning and budget system
- Formal organizational structure
- Communication flows; the exchange of information by systems outside the planning and budget system
- The reward (performance evaluation and incentive compensation) system; a system by which management can reinforce behavior which is consistent with the objectives and prevailing values
- Social system; includes management style, values, power, and company culture. This is usually classified as a separate system.

Other systems may be added and the definition of those mentioned above could be changed. But in this article we will focus mainly on changes in the planning and control system, which includes the formal planning system, the budgeting system and the reporting system, and also on changes in the reward system. By definition, an acquisition will lead to the establishment of a new communication system between the acquired subsidiary and the acquiring group. Therefore, this change is not included in the analysis, but it is important to recognize that it takes place. Communication systems can be either formal (i.e. managing directors reports, telexes, letters, etc), or informal (visits, personal contacts, telephone calls, etc). For a thorough analysis

of the use of various coordination and control systems in the management of headquarter-subsidiary relationships in MNCs, see Leksell (1981).

In the research, data was collected on how and to what extent various subsystems were changed or established in order to achieve integration of the acquired subsidiaries. To illustrate this, ten different subsystems were chosen for analysis. Each of them was investigated to see if it had been changed or if a new system had been established. The result is illustrated in Table 4.

Table 4. Integration of administrative and organizational systems[a/]

Systems \ Company	A	B	C	D	E
Long range planning[b/]	X	X	X	X	X
Annual budgets	X	X	X	X	X
Quarterly budget forecast	X	X	X	X	X
Monthly budget review	n.e.	X	X	n.e.	X
Monthly operating reports	X	X	X	X	X
Accounting system	X	X	X	X	X
Reward system[c/]					
Group personnel planning system	n.e.[d/]	X	n.e.[d/]	X	X
Composition of board of directors in subsidiary[e/]	X	X	X	X	X
Subsidiary top management[f/]	-[g/]	X	X	X	X

a/ Changes indicated with X.

b/ LRP implies planning for a time period over one year.

c/ Reward system implies the adjustment of existing systems to a group performance evaluation and incentive compensation system.

d/ n.e. indicates that the system does not exist in the group.

e/ Refers to changes in the composition of the board of directors in the acquired subsidiary. In one case (D) the use of the local board is an actively used control instrument for group management, in the other four cases the roles of the board are not so explicitly stated (see Leksell and Lindgren, 1980).

f/ Implies changes in subsidiary top management (MD and level under him).

g/ A top manager left the company but was not replaced.

As can be seen in Table 4, almost all the systems have been changed. However, it is possible to identify only minor variations among the groups, especially regarding changes in top management. One group, A, has not undertaken any changes in top management in any of the two acquired subsidiaries. In company C a regional manager has been put in the country. Three of the companies (6, 7, and 8) were acquired in one deal. The regional manager is Swedish and formerly a divisional manager in the division through which the subsidiaries were acquired.

In the fourth acquisition made by C included in the study, major changes in top management occurred after the acquisition.
Within each group, variations were found among the following systems:

1. Monthly operating reports were found to differ in number and content in the subsidiaries of A, B, and D. In C and E all acquired subsidiaries were obliged to send in the same reports as all other subsidiaries in the group.

2. Changes in the composition of the board of directors also vary among the acquired subsidiaries within each group. These changes are illustrated in Table 5.

In all the cases studied, changes in the composition of the board have been taken. In the boards of all the acquired subsidiaries, at least one director is representative from the management of the acquired company. In certain cases, new outside directors (outside director is defined as a director who is not employed by or retired from either the parent company, a division, or a subsidiary) have been appointed. The roles assigned to the newly composed board as an instrument for managing integration will be discussed later on.

Table 5. Changes in the composition of the Board of Directors of the acquired subsidiaries

Acquiring company	Acquired subsidiary	Previous number of directors	Present number of directors	Newly appointed directors
A	1	5	6	5
A	2	2	5	4
B	3	10	n.a.[a/]	n.a.
B	4	9	8	4
B	5	8	3	3
C	6	7	6	5
C	7	4	3	3
C	8	5	3	3
C	9	8	6	4
D	10	8	6	3
E	11	6[b/]	5	5

a/ The acquired subsidiary now forms two divisions in B. The new divisional boards cannot be compared with the board of the formal legal entity.

b/ Company 11 was previously a division of another company, but was a separate lebal entity. The board of this company did not fulfill any role other than just a formal legal requirement.

3. Variations have also been found regarding changes in top management of different acquired companies within the same group. In none of the companies did an established policy regarding changes of managers in acquired subsidiaries exist. When changes have taken place, they seem to do so for one or two of the following reasons. First, it can occur that managers leave the acquired subsidiary voluntarily, either because of conflicts (or disagreements) with the acquiring company, or as a natural resignation (i.e. the case when a family-owned company is sold, and the former owner/executive of the company choses to retire or to become a director on the board). But it could also occur as a planned result of the integration process. Certain managers in the acquired company are forced to leave and are replaced either by a representative from the acquiring company or by an externally recruited person.

In both cases there is a risk of what has been called a "house of cards effect" (see Lindgren and Spångberg, 1980 (II), p 12); that is, a manager leaving the company takes one or more of his colleages/subordinates with him, the latters being more loyal to their former manager than to the new owner/employer.

Table 6 illustrates the number of changes that have been registered in the subsidiaries under study:

Table 6. Changes in top management in the acquired subsidiaries

Acquiring company	Acquired subisidary	No. of top managers before acquisition	No. of top managers leaving company	No. of new top managers from acquiring group	No. of new externally recruited top managers
A	1	5	1	0	2
A	2	2	0	0	0
B	3	30 a/	21	3	0
B	4	10	3	1	4
B	5	6	3	2	2
C	6	8	2	1	3
C	7	4	1	0	3
C	8	5	1	0	1
C	9	12	8	5	6
D	10	5	1	1	1
E	11	6	4	3	0

a/ The large number of top managers leaving company no. 3 compared with the relatively smaller number of new top managers replacing those who left, has to do with the fact that the acquired company had several divisions. Some of these divisions were sold and corporate headquarters was closed down. Since before the acquisition, however, the divisions had divisional headquarters with sufficiently large staff functions. The two divisions that were kept became divisions in the organization of the acquirer. Most managers leaving the company were foremerly at corporate headquarters.

4. No other big differences were found concerning changes in the systems of acquired subsidiaries within each group. All five groups use the same planning and budgeting routines for all subsidiaries.

All the subsidiaries were engaged in manufacturing activities. Performance evaluation and incentive compensation systems were found to be the same for all subsidiaries within each group. It could be mentioned, however, that changes in reward systems tended to take different lengths of time between subsidiaries within a single group.

Despite the fact that the number of administrative and organizational systems changed does not differ substantially among the firms, the impact and the use of the various subsystems vary quite a lot among the groups of companies under study.

The extent to which each group relies on administrative and organizational systems for coordination and control of its subsidiaries operations determines the impact of the change in each subsystem of the acquired subsidiary. For example, company C relies heavily on budgeting and reporting systems for formal control purposes, whereas company A tends to use more informal control mechanisms such as personal visits to its subsidiaries, telephone calls, etc. This means that even though approximately the same number of systems are changed, the impact and use of each system per se affects the way the acquired subsidiary perceives the impact of changes imposed on it. And this in its turn affects the reactions of management and employees in the acquired company, which is one of the major factors explaining the outcome (success/failure) of the whole integration process.

However, for the purpose of this analysis it is interesting to broadly describe the relative importance of administrative and organizational systems for control purposes in each company as compared to the other firms in the sample. Here only a classification scheme of low (relative importance) and high (relative importance) will be used. Thus, the relative importance of the administrative and organiza-

tional systems for coordination and control purposes could be described as in Table 7.

Table 7. Relative importance of administrative and organizational systems

Company	Relative importance
A	Low
B	Intermediate
C	High
D	Intermediate
E	High

From the table we can see that the relative importance of the administrative and organizational systems is high in company C and E and low in company A. Company B and D take the intermediate positions. The classification is based on the researcher's own perception, which in turn is based on interviews at both headquarter and at subsidiary levels and by examination of the structure and use of the administrative and organizational systems themselves.

Some comments on changes in the social systems can be given. Changes in management style and internal company cultures were regarded as very difficult to achieve in all companies. Examples were found of what has been called a "culture shock", that is, where management style and company culture have changed in the acquiring and the acquired company respectively. Change of management style and company culture in the acquiring MNC as a result of an acquisition is not common - it has occurred, though, in cases where the acquired subsidiary has been very large. Attempts to actively change the social systems in acquired companies have been found in companies B, D, and E. The effects of these changes are hard to measure. It is very likely though that changes in management style and company culture are the most difficult parts of the whole integration process to accomplish.

Related to changes in social systems is the imposition of overall policies and strategies of the acquiring group on the new subsidiary. Hedlund (1979) analyzes how subsidiaries are informed about overall group policies and strategies and also the role of foreign subsidiaries in strategic decision-making in the MNC. The results that have been identified in the study presented in this article coincide with those of Hedlund's; the subsidiaries studied are not integrated to any substantial extent into active decision-making involving formulation of group strategies. Representatives from acquired companies can, however, influence the strategic decision-making process through various intracompany committees, joint project groups, etc.

To conclude, it can be said that the integration of administrative and organizational systems do not vary to any substantial extent among the groups regarding the nature and structure of the integration process. Differences were found, however, in the relative importance assigned to the administrative and organizational systems as coordination and control mechanisms within each firm.

The other major part of the integration process, the integration of operating systems, will be analyzed in the following section.

INTEGRATION OF OPERATING SYSTEMS

The operating systems reflect different aspects of the functional as well as general management of the company. Thus, in the concept can be included production management, marketing management, management of the R&D function, financial management, and other management areas directly related to the operations of the firm. The main reason for making a distinction between administrative and organizational systems and operating systems is that from a management point of view, the two kinds of systems call for different inte-

grative devices and thus can be viewed as different tasks when it comes to integration of various subsystems of the acquired subsidiary. The distinction became implicitly clear during interviews with managers of the companies under study. In some parts of the integration process, the two categories of systems are interrelated. But from a research point of view, a distinction will be upheld to the extent possible. When interrelationships do exist, these will be pointed out explicitly.

Operating systems are integrated to achieve various forms of coordination benefits between the operations of the acquired subsidiary and the rest of the acquiring group. The integration of administrative and organizational systems aim at achieving control over the operations of the company to realize the potential synergy effects from the integration of operating systems. But administrative and organizational systems may also act as instruments for control of the subsidiaries operations.

As mentioned earlier, integration of operations in the subsidiary can take place in different ways. Broadly, these can be divided into:

- Integration of production operations
- Integration of marketing operations
- Integration of R&D activities
- Integration of financial operations

Integration of production operations occurs when the manufacturing system of the acquired company is changed either to include products previously produced by the acquiring parent or in another of its subsidiaries, or by transferring technology of products from the acquired company to other parts of the acquiring group. The distinction relates to the strategic motive behind the acquisition. Examples have been found where both types of changes have taken place within one subsidiary. When parent B acquired

subsidiary no. 4, the major motive was the desire to ensure access to the technology used in the subsidiary. After the acquisition, technology was transferred to other subsidiaries in the B group through a number of licensing agreements. Production of this specific product in company 4 did not decrease as a result. At the same time, capacity was increased in company 4 in order to be able to produce the number of products previously produced in B. The purpose was to supply the local market with these products. Due to high transportation costs, export from other subsidiaries of B was not economically justified.

An example of operating synergy in production operation is said to be "links either in terms of actual technical interdependence (e.g. the flow of products) or in terms of the cross-pollination of technical skills" (Lorsch & Allen, 1973, p 113). In terms of interdependence as defined by Thompson (1968), it can be argued that while financial and managerial synergy require only pooled interdependence, (major operating units having virtually no contact with one another but each unit rendering a discrete contribution to the whole organization and in turn is supported by the whole, where each unit operates independently of the others), operating synergy requires a sequential interdependence (the output of one major unit is also the output for another unit) or a reciprocal (the output of each unit represents inputs for other units) in order to be materialized. The concept of operating synergy is not so easily identified in the case of a foreing acquisition. Interdependence is seldom reciprocal among subsidiaries in the group. An exception to this was found. Parent A acquired subsidiary no. 1 with the objective of finding a supplier of refined raw materials for the whole group. The production of company 1 was changed so that certain characteristics of its products would suit the specific needs of the subsidiaries of A wold-wide. The acquisition could be defined as a reverse vertical integration.

Another example is the acquisition of subsidiary 9 by parent C. Shortly after this acquisition, another company in the same industry and country was bought by C. In order to have products as standardized as possible, the products of company 9 were redesigned so that a higher degree of standardization was obtained. Company 9 together with the other acquired subsidiaries then became suppliers to the rest of the subsidiaries in the division world-wide. The two examples can be illustrated as in Figure 1.

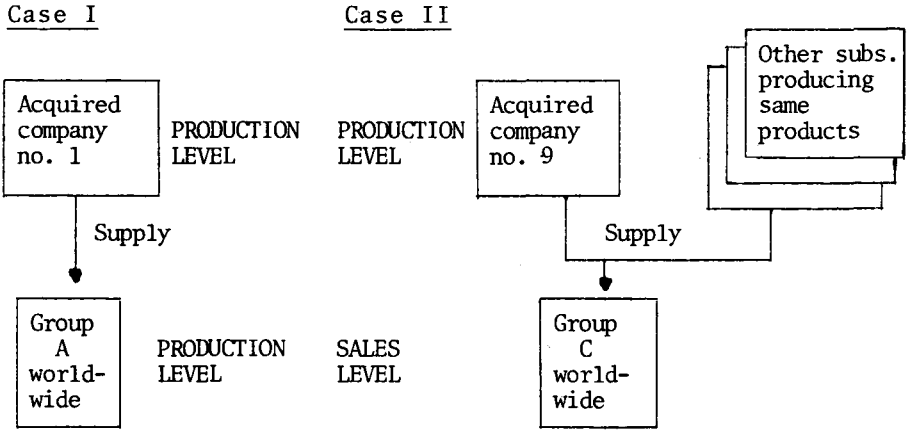

Figure 1. The integration of production operations

Neither in company 1 nor in company 9 was the technology of the products transferred to other subsidiaries in group A or C.

There was such a transfer, however, in the acquisition of company 4 by parent B, where the products produced in subsidiary 4 for its local market, were produced by several other group B subsidiaries after the acquisition. Here the actual integration work did not take place only in company 4 itself, but also in the subsidiaries chosen for production of company 4:s products, as may be illustrated in Figure 2.

Case III

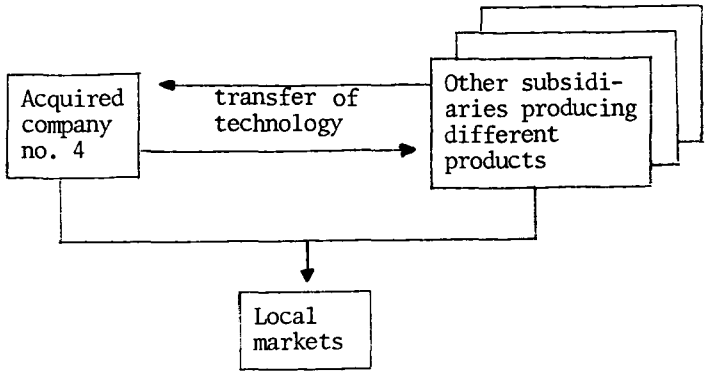

Figure 2. The integration of production operations

At the same time the production process in company 4 was expanded to include products previously produced by other subsidiaries of group B.

Examples of alteration to a smaller extent than those mentioned above are companies 6, 7, and 8, which were acquired by parent C. They all manufactured the same kind of product as the rest of the subsidiaries in this specific division of parent C. The products were sold on the local markets. After the acquisition, C wished to standardize the product portfolio of 6, 7, and 8, so that the products of these companies would become more or less identical to those produced elsewhere by the subsidiaries of company C. The products of 6, 7, and 8 were still sold only on their respective local markets. The standardization program was undertaken not primarily to create a global supply system for the products, but because the products of C were regarded as superior to those produced by company 6, 7, and 8 prior to the acquisition.

The same thing took place in company 5, which was acquired by company B.

After the acquisition of company 10 by parent D, a gradual expansion of production in the subsidiary was undertaken. After a certain period of time, products previously manufactured in the Swedish and Danish subsidiaries of parent D were also produced by company 10. At the same time, manufacturing of products already existing in company 10 was kept at the same level. The production of the Swedish and Danish companies was not affected.

In company 2 no changes in production (which was exclusively for the local market) took place. The motive for acquiring the subsidiary was to enable parent A's existing subsidiary to offer a broader product range.

Parent E acquired company 11 in order to obtain production facilities for a certain field of products that would be complementary to those produced by E itself. Company 11 became the major supplier to E:s subsidiaries in Europe.

The acquisition of company 3 by B, represents the largest acquisition in the study. Before the acquisition, company 3 consisted of five product divisions. Three of these were sold and two were kept by B. Division X was represented by its own operations in sixteen countries, with manufacturing activities in five. In some countries, operations were run jointly with Division Y in so called "hotel companies" with joint administration. In eleven out of sixteen countries, where the X division had its own subsidiaries, B also had operations. The merging activities that took place after the acquisition dealt primarily with the integration of distribution and sales. In some countries where production was run both by a subsidiary to B and a subsidiary belonging to the X division of company 3, a total merger of production operations was carried out. In several cases this meant that production was transferred from the B subsidiary to the X subsidiary and not the opposite way. Although production

was related, it was not possible to achieve scale economies for all types of products produced by X and B.

The Y division in company 3 was allowed to continue its own operations as before the acquisition. The products of Y were not related to products either of group B, or of the X division of company 3.

The examples described above can be summarized as in Table 8.

Table 8. The integration of production operations

	Acquiring group	Acquired company	Strategic nature of acquisition
Transfer of technology from acquired company to rest of acquiring group	B	4	R
Supply to acquiring group of products from acquired company	A B C E	1 5 9 11	R R R R
Adjustment of products of acquired company to those of acquiring group	B C C D	5 9 6, 7, 8 10	R R I R
Transfer of technology to acquired company from acquring group	B B D	4 5 10	R R R
Merger of production activities between acquired and acquiring company	B	3 Div. X	R
No alteration of production in acquired company	A B	2 3 Div. Y	I UR

When analyzing the integration of operating systems, it is important to know whether the groups already have a subsidiary in the country where the acquisition takes place (i.e. an indirect acquisition). It is also important to know if this subsidiary operates within a business area related

(i.e. belongs to the same division) to the acquired company. This is shown in Table 9 below.

Table 9. Relatedness between acquired and existing subsidiary

Acquiring company	Acquired subsidiary	Existing subsidiary	Relatedness between existing and acquired subsidiary
A	1	YES	YES
A	2	YES	NO
B	3	YES a/	YES
B	4	NO	-
B	5	NO	-
C	6	NO	-
C	7	NO	-
C	8	NO	-
C	9	YES	NO
D	10	YES	NO
E	11	YES	YES

a/ In eleven out of sixteen countries.

Only in six cases out of eleven, a subsidiary existed in the country prior to the acquisition. In the other five cases, the acquisitions were new entries into the local markets. Only in three cases (companies 1, 3, and 11) relatedness existed between the new and the old subsidiary. (In company 3 this only holds for one, (x) of the two divisions studies.)

It can be seen from Table 8 above that the most common measure undertaken in the production process in acquired subsidiaries is the adjustment of their products to obtain similarity with those of the acquiring company (C6, C7, C8, C9, B5, and D10). The least common measure in this sample are the transfer of technology from the acquired company to the rest of the acquiring group (B4), and the total merger of production activities between acquired and acquiring company (B3 division X).

Considering these facts, the following may be stated: C6, C7, and C8 are all acquisitions identical in strategic

features to the acquiring company. The other two, B5 and D10, both produce products not identical but closely related to those of the acquiring company. This explains why only smaller adjustments of the production processes have been made in these cases.

B4 is a related acquisition, thus allowing transfer of its technology to the rest of the B group of companies. These products were well known by the management of B even before the purchase.

B3 (division X) manufactures products related to the rest of the B-products. Most of the potential synergy lay in the merger of distribution channels, sales forces, etc. Where the subsidiaries of B and of the X division were merged, only one legal entity was allowed to continue. This implied the merger of those production processes that were judged to have a synergy potential.

Those companies (A1 and C9) that supply the acquiring group or parts thereof with products from the acquired company, both produce products related to the ones produced in the rest of the two groups.

Company 11 is related to the rest of company E, but its products are complementary only in the actual usage. They need a totally different raw material, and thus cannot be produced on the same production lines used for the other products of company E. No integration of production operations has taken place in that company.

The two companies (A2 and B3 division Y) where no alteration of production took place are somewhat different. The Y division of B3 is a purely unrelated acquisition. As mentioned earlier, A2 is not unrelated per se, but on the other hand, its products can only be produced in one specific

market due to the characteristics of the raw materials used by the company.

Integration of marketing strategy takes place when changes are made in distribution channels, sales forces, and other marketing activities. A special form of integration is the measures undertaken in regard to the purchasing management of the acquired company (see Mattsson, et al., 1975). In one example found in the research, a MNC had a worldwide raw material source supplying the majority of the subsidiaries of the group. Scale economies achieved in purchasing more than covered the extra costs of transportation. In the case of a subsidiary already existing in the country where the acquisition is made, joint warehousing could be regarded as a form of integration of marketing operations.

The task facing management has been found to be the coordination of marketing strategy between acquired and acquiring company so as to integrate for example product line policy, distribution channels and systems, technical development (including service and other soft ware), pricing policies, and the choice of customers.

The degree to which coordination of marketing strategies takes place varies with the strategic motives behind the acquisition, the degree of standardization of products, the customer structure, and the degree of interdependence between acquired and acquiring companies.

1. The strategic motive for the acquisition

If the motive for the acquisition is to use the acquired company as a channel through which to sell the products of the acquiring company, this calls for a high degree of coordination of marketing activities, whereas this need is not as accentuated if, for example, the acquisition mainly

is meant to acquire technology needed in the acquiring company. This especially calls for a close integration of distribution policy in the acquired subsidiary as not to negatively affect production and delivery planning in the parent company.

2. The degree of standardization of products

If a high degree of standardization of products exists, the potential for realization of operating synergy could be achieved through a high degree of coordination of product line policy, product development, and distribution systems. If, on the other hand, a need for a high degree of local differentiation exists, integration of marketing operations has not been found to be of equal importance.

3. Customer structure

If the MNC has a customer structure consisting of large international firms, quality control and pricing policies become crucial elements of a global marketing strategy. An example may illustrate this:[1/]

A Spanish subsidiary of one of the MNCs was faced with a too high inventory level due to declining local demand. Management in the subsidiary then decided to give a substantial discount in order to reduce inventory. The products of this subsidiary were identical to those produced by other subsidiaries in the group, i.e. a high degree of global standardization existed. The customers were mainly large international OEM companies. Within soon the Spanish subsidiary received orders not only from local OEM customers, but also

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1/ This example is taken from data collected in the project Management of Foreign Operations (see Appendix I).

from French, Italian, and even German buyers, to buy at the lower price offered by this company as compared with the local subsidiaries of the MNC in these countries. Group management was forced to order the subsidiary to drop the discount, but could not cancel the orders already placed, which negatively affected the subsidiaries in France, Italy, and Germany.

4. The degree of interdependence between acquiring and acquired companies

As noted before, a high degree of interdependence between acquiring and acquired companies calls for a high degree of coordination of operations both in production, marketing, and R&D activities.

Table 10 is a summary showing to what extent various elements of the marketing strategy of the acquired subsidiary have been integrated.

Table 10. Integration of marketing policies

	SUBSIDIARIES											
	A1[a/]	A2	B3X	B3Y	B4	B5	C6	C7	C8	C9	C10	E11
Product line policy	H	L	H	L	H	M	L	L	L	H	H	H
Distribution system	L	L	H	M	H	M	L	L	L	L	H	H
Technical development	L	L	H	M	H	M	H	H	H	L	H	H
Pricing policy	L	L	H	M	H	M	H	H	H	L	M	H
Customer choice	H	L	H	L	H	L	L	L	L	M	M	H

L = low degree of coordination[b/]
M = intermediate
H = high degree of coordination

a/ A1 now supplies the A group instead of local customers, which means that the measures undertaken are in regard to the acquiring group.

b/ Coordination is defined as the degree to which the previous policies and structure of the acquired company have been adjusted as a result of integration work.

Integration of other operating activities

In some cases the study showed examples of other forms of integration of operations, especially by different levels of coordination of research and development and by different stages of financial integration.

1. Integration of R&D activities (i.e. where R&D in the acquired subsidiary have been coordinated with R&D activities in the acquiring group) has been found in the following cases:

Table 11. Integration of R&D activities

Acquiring group	Acquired subsidiary
B	3 division X
B	4
C	6
C	7
C	8
D	10
E	11

The degree to which R&D activities have been integrated varies among the acquired subsidiaries. The highest degree of coordination was found in division X of company 3.

Here the R&D functions in the two companies were merged and placed at the divisional level (the division of company B into which company 3 was merged). In the subsidiaries a continuous adjustment of products to the requirements of the local markets is taking place. R&D is not the vital strategic resource in company B, however. The level of technology in its products is fairly low, and product development aims mostly at adjusting to new methods of application and to various requirements for local differentiation.

In the three subsidiaries (6, 7, and 8) of company C, integration of R&D has been carried out by the transfer of basic

research to the divisional level, with only the local-adaptation aspect of development left to the subsidiaries.

The R&D activities in company 10 are only coordinated for the products transferred from company D to the subsidiary. Products previously produced by company 10 have been kept there, as has the related of R&D.

In subsidiary 11, finally, the major motive for the acquisition was to obtain production as well as distribution facilities for a product strongly related to the products of company E. To a certain extent the products may be regarded as sustitutes. Therefore, it was judged necessary to integrate the R&D functions of the acquired subsidiary and of E's existing subsidiary in the country. This is a time-consuming process, and the final transfer will take over three years to complete according to the management of E.

In the other acquisitions no integration of R&D activities has been undertaken. In certain cases this is due to diseconomies, and in others simply to the lack of common technology.

2. Financial integration usually takes place to a certain level when a company ceases to be self-contained and instead becomes part of a larger group of companies. Exchange and tax regulations often make it difficult to achieve total financial integration. Only where the two companies are totally merged can such a total integration be achieved. And to accomplish a total merger, the acquiring company must already have an existing subsidiary in the country.

In cases where such a subsidiary does not exist at the time of the acquisition, financial integration does not imply major changes. However, some integrative measures have been identified in these cases also. They are:

a. Adjustment of the capital structure of the acquired subsidiary to the debt/equity-ratio norms of the parent company.

In cases where the acquired company is a former division of another company, the acquiring company must issue equity capital for the new subsidiary. A division has no equity capital of its own unless it is a corporation (which often is the case, however). The acquisition only affects assets minus operating debt (the net asset value of the division).

The acquiring companies have chosen different mixes of debt and equity capital. Some groups of companies have explicitly stated policies for the ideal capital structure of the subsidiaries. It is hard to apply these policies in practice, however. Adler (1974, p. 122) says:

> Any accounting rendition of a separate capital structure for the subsidiary is therefor wholly illusory and should be ignored in planning foreign investments.

Restraining factors for the choice of a capital structure in the acquired company have been found to be the minimum equity requirements in the local markets, as well as the need to maintain a worldwide financial structure for the group. It seems as if in cases where changes in capital structure are made after the acquisition, acquiring companies try to minimize the subsidiary's cost of capital.

b. Adjustment to a global cash management system.

Only two of the groups studied, C and E, had established global cash management systems. These systems aim mainly at structuring routines for the management of intracompany fund flows between units within the group in order to minimize float. These systems require a coordination of reporting routines for intracompany trade.

Company 9, which was acquired by company C, was integrated into a regionally operated cash pool. A goal for the required level of liquid assets was established. Excess liquidity as defined by corporate management was sent to a regional holding company, which in turn allocated the funds among the various subsidiaries in the region or sent them back to the parent company.

c. Other financial adjustments.

Among other changes in the financial management of the acquired subsidiaries, the following may be mentioned:

- Changes in credit terms to customers
- Change of local bank
- Changes in price calculation systems

These changes could be seen in several of the companies. Changed price calculation systems are closely related to the establishment of internal pricing systems for intra-company trade.

This section has aimed at describing the nature and structure of the integration process in the eleven acquired subsidiaries under study. What has been said about the integration of administrative, organizational and operating systems above could be summarized in a table relating the impact of changes to some attributes of the acquired subsidiaries (see Table 12).

One can see from Table 12 that there exists a relationship between the degree of relatedness and the level of integration of the various operating systems but not between degree and relatedness and the level of integration of the administrative and organizational systems.

One exception does exist, however, but this seems to have a logical explanation.

Table 12. The nature and structure of the integration process - A summary

	LEVEL OF INTEGRATION OF				
Subsidiary	Control[a/] system	Production system	Marketing system	Other operating	Degree of relatedness[b/]
A1	M	M	M	L	L[c/]
A2	M	L	L	L	H
B3(X)	H	H	H	H	H
B3(Y)	H	L	L-M	L	L
B4	H	H	H	H	M-H
B5	H	H	M	M	M
B6	H	M	M	H	H
C7	H	M	M	H	H
C8	H	M	M	H	H
C9	H	H	M	M	M
D10	H	H	M-H	H	M
E11	H	H	H	H	H

H = high
L = low
M = intermediate

a/ Administrative, organizational and social systems
b/ Between acquired subsidiary and acquiring group
c/ Vertical integration backwards

A2 which has a high level of relatedness with the rest of company A has not had a high level of integration of operating systems. This is due to the fact that despite the almost identical business area, the specific characteristics of the chemical composition of the raw material used in its products are a result of the specific requirements of the local market, which is not transferrable to any other part of the world.

INTEGRATIVE EFFORT

In the previous section the nature and structure of the integration process was discussed. Certain integrative measures registered during the research work were also described. From this it could be seen that the integration process could be divided into two major parts:

1. The integration of administrative, organizational and social systems
2. The integration of operating systems.

Certain differences between the groups could be seen regarding the magnitude of integration processes in terms of how many subsystems within each main group of systems were changed, and also by analyzing the relative importance of the administrative and organizational systems as control instruments. This total amount of integration work done by the acquiring company is a measure of the integrative effort devoted to the integration process. But the picture presented is not totally correct if only this static measure of integrative effort is used. To obtain a correct picture, a description of the dynamic aspects of the integration process is necessary. The dynamic impact of the integrative process in terms of integrative effort is best illustrated by the time needed to complete the integration phase of administrative, organizational and operating systems, and also by measuring the amount of working time managers both from the acquiring group and from the acquired subsidiary devote to integration work. These two measures need some short comments. First, it is hard from a technical point of view to define when the integration process actually stops, and where relationships between headquarters and subsidiaries take on what could be classified as "normal forms". This problem was discussed in an earlier section of this article.

Second, it is hard to clearly distinguish integrative work from what is only day-to-day operational business relationships between headquarters and subsidiaries. Once again, we will have to use information provided on the matter from the managers involved in the integration process themselves. Obviously, this could easily be a biased picture, but it is hard to find a better method without relying entirely on pure time studies of management work. And that is not the purpose of the research work.

In Lindgren and Spångberg (1980) the magnitude of the post-acquisition process and time devoted to it was analyzed. A classification scheme was developed which focused on different patterns identified in the processes studied. There was no detailed analysis aiming at measuring the processes in terms of actual time spent on post-acquisition management. A summary description of how long the integration process took in the eleven acquired subsidiaries in this study is provided in Table 13.

Table 13. Length (in time) of integration period

Acquired subsidiary		Time needed for completion[a/]
No.	1	6 months
	2	3 months
	3	1 1/2 years
	4	1 1/2 years
	5	1 year
	6	1 year
	7	9 months
	8	9 months
	9	1 1/2 years
	10	2 years
	11	February 1980[b/]

a/ From date of acquisition agreement was singed until the completion of all integration work.

b/ Still not completed at the time of writing. Acquisition made at date indicated in table.

One can see that the integration period varies in length from 3 months (company 2) up to 2 years (company 10). The reason for the very long integration period in this company is that the acquisition was made to enable an entry into this specific market. Ever since the start of the integration work, products from the parent company were transferred to the subsidiary for production for the local market.

It was stated earlier that no great differences were found among the groups regarding the integration of administrative and organizational systems in terms of the number of

subsystems changed. But it also became clear during the research that these changes were imposed during different stages in the total integration process in different companies. Here another measurement problem also arises; namely, when an administrative or organizational system should be regarded as integrated. Even when administrative routines in the acquired company are all changed, the actual use of these new routines can occur later on. But here is only described the time needed for alteration of routines. (This excludes the changes in management style and company culture, as these are intangible phenomena and extremely hard to measure in time.)

Table 14. Time needed for integration of administrative and organizational systems in acquired subsidiaries

Acquired subsidiary		Time needed for integration[a/]
No.	1	3 months
	2	3 months
	3	8 months (X), 6 months (Y)
	4	4 months
	5	3 months
	6	6 months
	7	6 months
	8	6 months
	9	9 months
	10	10 months
	11	February 1980[b/]

a/ From date acquisition agreement was singed until the completion of all integration work.

b/ Still not completed. Acquisition made at date indicated in the table.

The time varies from 3 months (company 2) to 10 months (company 10). In general, the time devoted to the integration of administrative and organizational systems is less than the time devoted to company 2 and division 4 of company 3, where the time needed for integration of administrative and organizational systems equals the total time needed for integration work. It should be recalled from the pre-

vious section that in these two cases there was no integration of operating systems. It could therefore be stated that in all the acquired subsidiaries studied, the total time needed for the integration process equaled the time needed for the integration of operating systems (when this takes place).

The time needed for completion of the integration process is one variable defining the dynamic element of integrative effort. Another variable is the time devoted to integration work by managers in the acquiring as well as the acquired company. It is a difficult task to measure this in terms of days, months etc. Therefore we have chosen to illustrate it by using a broad classification scheme where the classes are:

- Very much = more than 360 man-days[1/]
- A lot = more than 180 man-days
- Medium = between 90 and 180 man-days
- Little = between 30 and 90 man-days
- Very little = less than 30 man-days

Using these classes, a table can illustrate the time devoted to integration work (see Table 15).

Thus, we are able to analyze the total integrative effort used in the integration process in all the acquired subsidiaries studied by simultaneously taking into account:

- The number of administrative and organizational systems integrated
- The extent to which operating systems in the acquired subsidiary have been integrated
- The time needed for the total integration process
- The time devoted to integration work by managers in the acquiring and the acquired company.

1/ Full-time day work for a manager at either the acquiring group (division, corporate) or the acquired subsidiary.

Table 15. Time devoted to integration work by managers in the acquiring and acquired company

Acquired subsidiary	Time devoted (in man-days)
No. 1	little
2	very little
3	very much
4	a lot
5	medium
6	medium
7	little
8	little
9	very much
10	a lot
11	February 1980[a/]

a/ Still not completed. Acquisition made at date indicated in the table.

The following table shows all these factors together for each subsidiary.

Table 16. Integrative effort in integration processes

Acquired subsidiary	Degree to which control systems have been integrated[a/]	Degree to which operating systems have been integrated[b/]	Time needed	Time devoted
No. 1	M	low	6 months	little
2	M	very low	3 months	very little
3(X)	H	very high (div X)	1 1/2 year	very much
3(Y)	H	very low (div Y)	6 months	little
4	H	high	1 1/2 year	a lot
5	H	medium	1 year	medium
6	H	medium	1 year	medium
7	H	medium	9 months	little
8	H	medium	9 months	little
9	H	medium	1 1/2 year	very much
10	H	high	2 years	a lot
11	H	very high	c/	c/

a/ In all groups the number of control systems integrated is the same for all acquired subsidiaries in the group. From Table 10.

b/ From Table 10.

c/ Still not completed.

To this table should also be added the relative importance of the administrative and organizational systems for control purposes as was discussed in the previous section of this article, since it could be hypothesized that this would have an impact on the amount of integrative effort needed to implement all changes that are judged necessary. In those cases where the administrative and organizational systems play an important role as control mechanisms, it could be hypothesized that more time is needed and more managerial work devoted to the management of the systems.

We can see from Table 16 above that the integrative effort is relatively great in acquired subsidiary 3 (divisions X), 4, 9, and 10. It is somewhat smaller in acquired subsidiary 5, 6, 7, and 8. And it is small in acquired subsidiary 1, 2, and 3 (division Y). As the integration of subsidiary 11 is still not completed, it is hard to draw any exact conclusions about the amount of integrative effort devoted to the integration process. But from the data available it seems as if the integrative effort will be great in this company too. Using this broad classification, we can show in a table the integrative effort required for the subsidiaries (see Table 17).

Table 17. Total integrative effort devoted to integration of acquired subsidiaries

Acquired subsidiary		Total integrative effort
A	1	small
A	2	very small
B	3	great (div X), small (div Y)
B	4	great
B	5	intermediate
C	6	intermediate
C	7	intermediate
C	8	intermediate
C	9	great
D	10	great
E	11	great

We shall now turn to factors that could explain differences in the integration process in the MNCs under study. The factors that seem to explain most of the observed variation are the following:

- The size of the subsidiary
- The strategic motive for the acquisition
- The complexity of integrative devices used

The size of the subsidiary affects the amount of integrative effort needed to achieve an effective integration. The three large subsidiaries, 3, 4, and 9, required great integrative efforts, whereas the smaller subsidiaries required less (companies 1, 2, 7, and 8).

The strategic motive for the acquisition also affects the extent to which operating systems in the subsidiary are integrated. This in turn affects the amount of integrative effort devoted to the integrative process.

It could be hypothesized that to some extent the profitability situation in the acquired subsidiary also relates to the amount of integrative effort needed. For example, company 9 needed a great amount of integrative effort. Shortly after the acquisition, however, the profitability of the company declined rapidly, forcing group management to dramatically increase the efforts to turn around the company. Other situational factors may also play a role. If the company cultures differ a lot between the acquired subsidiary and the acquiring group, this causes enlarged problems when buying to integrate smoothly. For example, if the acquiring group uses a very formalized control system and tries to impose this on an acquired subsidiary which has previously used much more informal management control systems, difficulties arise from the reactions of managers in the acquired company, which more or less openly opposes the new style and formalized systems.

In the following section we will analyze the role of the complexity of the integrative devices used.

THE NATURE AND USE OF INTEGRATIVE DEVICES IN THE POST-ACQUISITION PROCESS

Integrative effort in the integration work was said to be determined among other things by the number of administrative and organizational systems integrated, the degree to which operating systems have been integrated, the time needed for integration, the time devoted by management to integrative work, and by the role of the administrative and organizational systems for control purposes. But the amount of integrative effort does not tell us anything about by what means these systems have been changed, and who has implemented the changes. We shall call the first phenomenon integrative devices and the latter integrators. To some extent the two concepts coincide; in some cases an integrative device may be a person carrying out integrative work, for example, a specialist in computer systems changing the chart of accounts system in the acquired subsidiary. Therefore, we will describe the two things together in the first part of this section about the nature of integrative devices. In the latter part we shall turn to a description of the extent to which the companies in this study use different sorts of integrative devices and integrators.

The nature of integrative devices used in the post-acquisition process

Integrative devices are various mechanisms for change of the systems and structure of acquired subsidiaries according to goals set up by management in the acquiring group. In this study such integrative devices have been identified through a careful examination of the nature and structure of the integration processes. Thereby, it has been possible to classify the major integrative devices used during the integration phase. These have been the following:

Specialists

When the management of the acquiring company wants to integrate (change or establish new) control and operating systems in an acquired subsidiary, they send specialists to do the work. These are often line or staff specialists from the acquiring company, who are sent to the acquired subsidiary to undertake the changes planned or introduce new systems not previously existing. These specialists may represent different functions in the parent company. Engineers are sent to prepare and supervise changes in the production process such as the installment of new machinery, equipment for quality control, new production methods, etc - that is, all changes undertaken in order to integrate the production operations of the acquired subsidiary. Corporate controllers are often involved in the installment of new accounting, budgeting, and reporting routines. Specialists on group computerized administrative routines are sent to transfer these programs for use in a computer in the acquired subsidiary. Several other examples very similar to these mentioned could be pointed out. Specialists acting as a combination of consultants, advisors, and supervisors are very often seen during the integration phase. Their number is determined by many factors - the integrative effort that is judged necessary to carry out the integration, the availability of specialists at corporate and divisional level, etc.

Project committees/groups

In a number of the cases studied, project committees or groups have been appointed to have the responsibility for the implementation of integrative goals. The composition of these groups and the power assigned to them vary widely among the cases studied. Company B appoints committees consisting of functional specialists headed by the president of the division into which the acquired subsidiary is integrated. Company C, on the other hand, leaves the responsibility to a single person, often a divisional staff manager.

The composition seems to be fairly well related to the changes intended. If production processes are to be altered, a production manager from the parent company is very likely to be a member of such a project group, etc.

Outside consultants

In some cases the complexity of the changes planned is so high that it has been judged necessary to hire outside consultants to assist the persons responsible for handling the changes. For example, banks have been engaged to help install a new cash management system, construction consultants assist in the transfer of production from the acquired subsidiary to an already existing subsidiary in the country, etc. The consultants are used as a complement to the company's own specialists for certain difficult tasks.

Ad hoc task forces

Although an integration process has been running smoothly for a certain period of time, there are times when something goes wrong or unexpected difficulties arise that delay or actually stop the integration work. In some of these cases companies were found to establish ad hoc task forces for solving the problem that had arisen or temporarily assuming responsibility for the integration work. Such task forces may consist of representatives from both the parent company and the subsidiary. They are often removed after accomplishing the task they were set out to perform.

Board of directors in subsidiary

It was earlier said that the composition of the board of directors in the subsidiary was changed directly after the acquisition in all the cases studied. In some cases the newly composed board was not assigned any active role at all. In others, though, the board came to play active roles as advisors, monitors, and to handle external rela-

tions for the subsidiary. When an active role has been assigned to the board, it may be used in the integration process, especially as advisors to the local management in matters that concern external relations and introduction to new contacts with important institutions such as local banks, lawyers, etc. However, these cases are very rare. The board was found to play a really active role in the integration process only in the acquisition of company 4 by company B. Here four directors of the old board were kept on the board of the new subsidiary. The board helped the management of the subsidiary to get new loans from a local bank to finance the expansion of production capacity in order to adapt the new technology from company B.

Formal meetings

Although no project group had been appointed, some companies established schedules for formal meetings between management in the acquiring and the acquired subsidiary. At these meetings matters being of policy character were brought up by people assigned to various integrative tasks. In company E such meetings were held once a month at the subsidiary or at divisional headquarters. A similar arrangement was found to exist in company D, where regular visits were made by divisional managers to the subsidiary for discussions with people responsible for integration activities there. Various kinds of formal meetings were found in all the processes studied.

Informal managerial contact

Besides the formal meetings of managers, project groups, task forces, etc, informal managerial contacts were found to be very common in all the integration processes studied. The daily operations of the company were controlled in the same way as regular headquarter-subsidiary relationships are. Telephone calls, informal meetings, letters, telex messages, etc were all found to play a very important role as informa-

tion and communication channels in both directions between the parent company and the acquired subsidiary. Informal managerial contacts also function as a last resource when other conflict resolution mechanisms, such as formal decision-responsibility agreements and other issue-resolution mechanisms, are not capable of handling conflicts that may arise during the integration phase. Very often, so called cultural shocks have been seen when managers and employees of the acquired company react very negatively to changes introduced through integrative measures. In some cases such informal contacts as those mentioned require considerable top-management involvement. This will be discussed later.

Intracompany training activities

Training as an instrument to achieve integration among intracompany units is becoming more and more usual. Therefore it is not surprising that training of managers and employees in the acquired subsidiary was found to be a successful tool to achieve integration. Training seems to be especially important as a device to change the social systems, i.e. company culture and management style, but it also fulfills other integrative functions. First, it provides arenas for socialization processes among managers from the acquiring group and the acquired subsidiary (see for example, Doz & Prahalad, 1980, p. 9). Second, it is also a way to train personnel, such as salesmen and engineers, to be able to understand and use the technology of new products transferred to the subsidiary, financial managers to understand and use the financial planning system used by the acquiring group, etc.

One specific form of intracompany training is group conferences, where managers from subsidiaries, divisions, and the corporate office meet to discuss particular topics. Such conferences also serve as arenas for socialization and informal convergence of group perceptions.

In company B internal programs were held for participants from both the parent company and the acquired subsidiary (no. 3). The programs included comprehensive project work on future strengths and weaknesses of the merged organization, as well as a review of experiences with both the past and ongoing merger activities to form future acquisition guidelines for the group.

Ad hoc information meetings

Especially in the beginning of the integration phase, many of the companies found it necessary to organize ad hoc meetings with managers and employees of the acquired subsidiary to inform them of the plans and intentions of the acquiring company regarding the future strategy for and operations of the acquired company. Managers interviewed in the subsidiaries stressed the importance of being kept informed about the future. Those cases where a so called house of cards effect could be identified, often resulted from insufficient information to people in the subsidiary, who were left with a feeling of great uncertainty about their future careers and prospects.

Choice of key managers

A very useful device in order to achieve integration was often mentioned to be the choice of key managers in the subsidiary. By replacing managers, judged either incapable of managing the new subsidiary or too resistant to the necessary changes, the acquiring company can exercise significant control over the management of the integration process. In seven out of the eleven cases studied, new managers from the acquiring group were appointed as executives of the new subsidiary (see Table 6). And in eight cases, externally recruited new managers were brought into the company. Only in one case (subsidiary 2) no new manager was appointed in the acquired company. Doz and Prahalad (1980, p. 6) stress

the importance of finding individuals with the right personalities to perform the task of assuring the right level of headquarter control when appointing new key subsidiary managers (see also Edström & Galbraith, 1977; Hedlund, 1979; and Lindgren, 1978).

Such newly appointed key managers in the subsidiaries often perform the role of an integrator as well (see Doz & Prahalad, 1980, p. 16). But those "pure" integrators may lack sufficient personal leadership, relevant experience, power or top management support to assume a key manager's role. Doz and Prahalad point out, however, that integrators can be useful simply as conduits for information and as feedback to top management. The concept of integrator as used here should not be compared with the concept as used to describe all individuals carrying out integrative work.

The integrative devices mentioned may be divided into two categories, depending on the nature of the device. First, we find managerial devices, where one or more persons constitute an integrative device, e.g. a specialist, a project group, etc. Second, we may also find structural devices (training programs, information meetings, etc), where a body or an arena was established in which integrative work was carried out. They can be said to perform on the one hand substantive and on the other procedural influence, where managerial devices provide a substantive influence on the integration process, whereas structural devices only provide procedural influence on the process. Table 18 illustrates this.

Table 18. Managerial and structural integrative devices used in the post-acquisition process

1. Managerial integrative devices
   - specialists from acquiring group
   - project groups/committees
   - outside consultants
   - ad hoc task forces
   - subsidiary board of directors
   - the choice of key managers
2. Structural integrative devices
   - formal meetings
   - informal managerial contact
   - intracompany training activities
   - ad hoc information meetings

The use of integrative devices in the post-acquisition process

We have now described the major integrative devices identified during the research. Some of them were found in several cases, whereas others occurred only sporadically. When managing the integration process and thus choosing the integrative devices judged to be most suitable for the kind of integration work and the amount of integrative effort needed, management in the parent company has to take several factors into account when evaluating the fit of a certain device and a specific integrative task. Doz and Prahalad (1980, p. 5-6) point out the following attributes of a mechanism that could be evaluated in order to analyze its suitability for a certain situation:

- Dimension of the process that is primarily affected

- Directionality of the use of the mechanism. (Does using it imply choosing a specific strategic shift or merely building the capability to effectuate the shift?)
- Selectivity in use for different approaches to various categories of decisions.
- Continuity
- Time horizon of changes brought about by using the mechanism.
- Channel for direct and personal top management intervention.
- Top management support needed.

An additional number of factors need to be taken into consideration when choosing an integrative device. We have already mentioned:

- Nature of integrative tasks involved in the integration process, i.e. to what extent operating and administrative systems are to be integrated.
- Amount of integrative effort needed in order to achieve the goals for the integrative work set up by the parent company.

We can also add:

- The existing managerial resources available for the planned kind of integrative work, i.e. does the company have sufficient staff specialists, top management time, etc, to be able to carry out the integrative tasks effectively.

Keeping these considerations in mind, we turn to a description of how and to what extent the companies in this study have used integrative devices in the integration processes. This use of integrative devices may be illustrated as in Table 19.

Table 19. The use of integrative devices (x = device used)

Acquiring group number	A	A	B	B	B	B	C	C	C	C	D	E
Acquired subsidiary number	1	2	3(X)	3(Y)	4	5	6	7	8	9	10	11
Integrative device used												
A. Managerial integrative devices												
1. Specialists	x	x	x	x	x	x	x	x	x	x	x	x
2. Project group/committee	-	-	x	-	x	-	-	-	-	x	-	x
3. Outside consultant	-	-	x	x	-	-	-	-	-	-	-	-
4. Ad hoc task force	x	-	-	-	x	x	x	-	-	x	x	x
5. Subsidiary board of directors	-	-	-	-	x	-	-	-	-	-	x	-
6. Choice of key managers	x	-	x	-	x	x	x	x	x	x	x	x
Total	3	1	4	2	5	3	3	2	2	4	4	4
B. Structural integrative devices												
1. Formal meetings	x	x	x	x	x	x	x	x	x	x	x	x
2. Informal managerial contact	x	x	x	x	x	x	x	x	x	x	x	x
3. Intracompany training activities	-	-	x	x	x	-	-	-	-	-	-	-
4. Ad hoc information meetings	x	-	x	x	x	x	x	-	x	x	x	x
Total	3	2	4	4	4	3	3	2	3	3	3	3
Total number of integrative devices used	6	3	8	6	9	6	6	4	5	7	7	7

We can see that the number of integrative devices used ranges from three (A2) to nine (B4). This table differs from Table in the previous section, where the amount of integrative effort was shown. The number of integrative devices used obviously does not per se determine the amount of integrative effort, since the description above does not take into account the complexity of the integrative devices used. Lorsch and Allen (1973, p. 180) define complexity of integrative devices as "both the number and the differing types of organizational devices used to achieve integration among the units in question". In other words, it is the types of devices and how they are used that determine the amount of integrative effort needed to accomplish an integrative task efficiently. Lorsch and Allen state that the more complex the patterns of interdependence among units, the more complex the integrative devices that will tend to develop (Lorsch & Allen, 1973, p. 180). Their study focused on ongoing corporate-divisional relationships, whereas the focus of this study lies with a process. Thus, if translated to this study, one could similarly argue that the degree of complexity among integrative devices is directly related to the complexity of the integration process, that is, to what extent administrative, organizational and operating systems are changed. This, in turn, is primarily determined by the strategic motives for the acquisition.

It could be hypothesized that there is an optimal relationship among integrative effort, integrative devices used, and the complexity of the ideal results of the integration process. In practice, however, this ideal level is very hard to measure. The choice of integrative devices and the decision on the integrative effort to be devoted to the integration process will therefore be made by using management's own estimates of the optimal level. But nevertheless, we may state that an excess or a deficit of integra-

The reason for the large number of employees at corporate and divisional offices in A, D, and E is primarily the relatively large size of the R&D function located centrally and/or at the divisional level.

B and C have smaller R&D functions. These are the two most diversified companies in the sample. This finding is in line with the findings of Berg (1971). They are typical conglomerates in which the division and the subsidiaries are managed by the corporate level primarily through financial performance criteria and reward systems.

But there does not seem to be a direct relationship between the size of the corporate and divisional offices and the number of integrative devices used. Nor could any significant relationship be identified between the size of the offices and the use of either primarily managerial integrative devices or structural integrative devices.

But if one looks closer at each integrative device, the situation becomes much more complex. For example, the use of the device of specialists in one integration process may vary a lot as compared with another. All companies used at least one specialist in every integration program. Comparing the case of A2 with E11 reveals that in A2 only one person/specialist was used to help install various computerized administrative systems. In E11 the number of specialists was very much higher and involved engineers engaged in changing production processes, marketing specialists both from the division and the local subsidiary in the working with the integration of distribution systems, controllers from headquarters installing new budgeting and accounting routines, etc.

Similar examples could be shown for several other integrative devices.

tive effort may occur in integration processes. It seems as if the choice of various devices in the processes studied is more the result of ad hoc considerations than of planned and analytical decisions.

Variations can be seen both between, as well as within groups. When it comes to the number of integrative devices used, there seem to be no direct relationships between the magnitude of the integrative measures taken on the operations of the acquired subsidiary and the number of devices. The size of the subsidiary may explain some of the variation; the three largest acquisitions, B3, B4, and C9 use eight, nine, and seven integrative devices respectively. It could also be hypothesized that the number of devices is related to the size of the corporate and divisional offices of the acquiring group. Table 20 illustrates the relative size of corporate and divisional offices in the companies under study. We use the classification scheme small-large to illustrate size.

Table 20. Relative size of corporate and divisional/group-of-divisions office

Company	Size of[a/] corporate office	Size of[a/] divisional office	Median number of integrative devices used[b/]
A	medium-sized	large	5
B	small	small	7
C	medium-sized	small	5
D	large	large	7
E	very large	large	7

a/ Size is measured by total number of employees at corporate and divisional/group-of-divisions office.

b/ From Table 19.

Very small = less than 25 employees
Small = between 25 and 50 employees
Medium-sized = between 50 and 100 employees
Large = between 100 and 200 employees
Very large = over 200 employees

As stated earlier, the actual use and the complexity of integrative devices thus is a function of the magnitude of the integrative work undertaken in the subsidiary. The determinants seem to be identical to those indicated for various amounts of integrative effort devoted to the integration process - that is, the strategic objectives of the integration process and the size of the acquired subsidiary. The strategic objectives of a foreign acquisition are determined by the overall strategy of the firm as stated in the corporate strategy formulated by top management. We shall return to the role of top management in the acquisition process in the last section of this article.

To summarize what has been discussed so far, the following statements can be made:

1. The amount of integrative effort devoted to the integration process varies with the size of the acquired subsidiary and with the strategic objectives of the integration process.

2. The amount of integrative effort can be described in terms of:

   - The amount of administrative and organizational systems in the acquired subsidiary that are changed, and new systems established (i.e. the design of the systems).

   - The relative importance of the administrative and organizational systems for control purposes (i.e. the functioning of the systems), from a parent company point of view has an impact on the amount of integrative effort needed to implement all changes that are judged necessary.

   - The extent to which the operating systems of the acquired subsidiary are integrated.

   - The time needed for the total integration process.

- The time devoted to integration work by managers of the acquiring and the acquired company.

3. The complexity (the number and the differing types of) of integrative devices used in an integration process does not vary with the size of corporate and/or divisional offices. Instead, the determinants of which and how many integrative devices used are directly related to the nature of the integration objectives and to some extent also the size of the acquired subsidiary; that is, they are the same as the factors determining the amount of integration effort devoted to the integration process.

4. The amount of integrative effort and the complexity of the integrative devices used are interrelated. One director of the complexity of integrative devices is the number of devices used. This relationship is shown in Table 21 also relating to the strategic nature of the acquisition and the size of the acquired subsidiary.

We can see that there is a certain direct relationship between integrative effort and the number of integrative devices used. In those companies where great integrative effort was devoted to the integrationa process, the number of integrative devices used tends to be relatively high (B3, B4, C9, B10, and E11), and where the integrative effort was small (A1, A2, B3 division Y, C7, and C8), the number of devices was relatively low.

Relating then to total integrative effort and number of integrative devices used to the size of the subsidiary, one can see that size corresponds very well with integrative effort and number of integrative devices, i.e. the amount of integrative effort and the number of integrative devices increase in direct relation to size. Two exceptions do exist, however, namely company B3 division Y, where the

Table 21. Relationship between integrative effort, number of integrative devices used, strategic nature of acquisition, and size of the acquired subsidiary

Acquired subsidiary number	Strategic nature of acquisition a/	Size of acquired subsidiary b/	Total integrative effort c/	Number of integrative devices used d/
A1	R	small	small	6
A2	I	small	very small	3
B3(X)	R	large	great	8
B3(Y)	UR	large	small	8
B4	R	large	great	9
B5	R	small	intermediate	6
C6	I	medium	intermediate	6
C7	I	small	intermediate	4
C8	I	small	intermediate	5
C9	R	medium	great	7
D10	R	small	great	7
E11	R	medium	great	7

a/ From Table 3.

b/ Small = turnover under 10 M USD
Medium = turnover over 10 but under 50 M USD
Large = turnover 50 M USD or over

c/ From Table 17

d/ From Table 19

total integrative effort is small, but the size of the subsidiary is big, and company D10 where the integrative effort is great whereas the company is small. However, company B3(Y) is an unrelated acquisition, which can explain the result, whereas company D10 is a related acquisition where a lot of effort was devoted to integration of operating systems.

The conclusion then is that both size and the strategic nature of the acquisition seem to determine the amount of effort and the complexity of the integrative devices used in the integration process.

5. To understand fully the relationship between the amount of integrative effort and the number of integrative devices used, one has to analyze the whole impact of each

integrative device measured in terms of magnitude of integrative effects and the complexity of each device in every specific situation. That has not been the purpose of this study, however, but it could be an area for future research. Here we can only hypothesize on the basis of the researcher's own estimates that the integrative effort would be found to be more directly related to the complexity of the integrative devices, than to the number of integrative devices used.

6. Given that the determinants of the amount integrative effort and of the complexity of integrative devices vary with the size of the subsidiary and the strategic objectives of the integration process as established by corporate strategy which could be seen in Table 21 above, it could be hypothesized that there is an optimal structure of integrative effort and complexity of integrative devices. The task for top management is then to identify this level. We shall return to this topic regarding implications for management in the last section of this article.

INTEGRATIVE ROLES IN THE POST-ACQUISITION PROCESS

In the previous sections we have analyzed the nature of integrative devices used in the post-acquisition process and how the use of these devices varied between the integration processes studied. Some of the devices described are merely roles performed by people engaged in the process. Others, those we have called structural devices, also imply participation of people. All people engaged in the process therefore can be said to perform integrative roles or to act as integrators. How they perform their roles depends on the specific characteristics of the situation, and also on the various extent power has been assigned to them. So far, we have analyzed the integration phase with-

out considering the role of top management in the acquisition process. We shall look at the role of top management during the various stages of the acquisition process.

The establishment of acquisition policies

It seems as if the role of formulating strategies for the company is the most important task for top management in the acquisition. By determining the strategic objectives and thereby establishing strategic acquisition criteria, top management could be said to establish the "rules of the game" for all phases in the acquisition process. In those cases where acquisition failures have occurred, a lot of the underlying reasons for this are the results of too loosly defined and formulated strategies for acquisitions. On the other hand, a well defined and correctly communicated corporate strategy is itself a guideline for all parts of the acquisition process. By defining internationalization strategy and diversification strategy and thereby drawing up the lines for to what extent administrative and operating systems need to be integrated, top management operationalize the implementation of these strategies in the integration process. (For an analysis of top management involvement in strategy formulation, see e.g. Ansoff, 1980; Horwitz, 1980; and Lorange, 1980.)

The delegation of authority

The integration process is a time-consuming process and may need the involvement of managers from different business units and organizational levels. The delegation of authority to carry out necessary integrative tasks has to be made by top management in the parent company. This may either take the form of actually initiating the use of specific integrative devices such as task forces, formal meetings, etc, or by instructing those managers to whom has been assigned various integrative responsibilities.

These managers in their turn delegate responsibility among subordinates to carry out various integrative tasks. The main responsibility of top management is to see to that the delegating of authority coincides with the strategic objectives of the process, which are the prerequisites for an efficiently large amount of integrative effort and an appropriate degree of complexity of the integrative devices used.

The choice of integrative devices and the assignment of appropriate amount of integrative effort

Close to the delegation of authority to carry out the integrative tasks lies the responsibility to control and monitor the choice of integrative devices and an appropriate amount of integrative effort to be used in the integration process. Earlier was mentioned various attributes that could be attached to a specific integrative device and which could be evaluated as to their appropriateness for a specific integrative task. These attributes should be evaluated in the context of the nature of the integrative tasks that are involved in the integrating process (i.e. to what extent and how operating and administrative systems are to be integrated), and of the amount of integrative effort judged to be needed to achieve the goals for the integrative work set up by the parent company. These requirements should be compared with the existing managerial resources available for the planned kind of integrative work. It was hypothesized that an optimal structure of integrative effort and complexity of integrative devices would exist, and that the task for top management is to identify this level. Obviously it is very difficult to find this optimal level in practice. Lorsch and Allen (1973, p. 182) discuss escess and deficit of integrative effort in managing diversity and interdependence. Similarly, we can talk about excess and deficit of integrative effort in managing the integration process. Either an excess or a deficit of integrative

effort relative to the specific requirements in an integration process as determined by the strategic objectives of integrative work will then tend to lead to less effective relationships between the parent company, the division, and the acquired subsidiary.

The role of conflict resolution mechanism

Several examples of conflicts between managers in the acquired subsidiary and manager carrying out integrative activities were found during the research. Conflicts have also arisen within integrative task forces, committees, etc. In these cases the resolvement of the conflict by the active involvement of the parent company top management may be an efficient mechanism. Some of the devices are themselves examples of conflict resolution mechanisms, but there may be limits for how severe conflicts these devices can handle with the resolution mechanisms inherent in their structure. Top management involvement may then be necessary. An example could clarify the nature of the conflict resolution process. In the integration of subsidiary acquired by company C, a number of integrative effort was devoted to the integration process. Corporate management was involved to a very little extent in the ongoing process. Instead, the main responsibility for the integrative work lay with the president of the group of divisions into which the acquired subsidiary was to be integrated.

However, at a specific point in time, two top managers in the subsidiary suddenly decided to leave the company because they felt alienated to the changes that were imposed on the company and which affected their work to a large extent. They persuaded a number of their subordinates to leave the company together with them. The matter was brought to the attention to the divisional president, who instructed the various managers from the division engaged in the integrative work to try to solve the situation in various ways so

as to avoid a so called house of cards effect, which would severely threat the business in the company. After several attempts to negotiate with the two persons, no results had been reached. The divisional president then decided to inform group top management about the situation. They chose to intervene and offered the two managers various incentives for staying with the company, which they eventually decided to do. But it had been necessary to involve group top management to get the appropriate result.

The roles mentioned above are not the only roles performed by group top management in the integration process. But they are among those that by the researcher's own estimate seem to be the most important. However, a study focusing only on top management involvement in the acquisition process would be a very interesting area for future research.

SUMMARY AND CONCLUSIONS

The purpose of this article has been to explore the nature and structure of the integration process and to describe it in terms of integrative effort and complexity.

The management of integration of acquired subsidiaries could be divided into two major categories of integration activities. One is the integration of the coordination and control systems of the acquired subsidiary into those of the acquired MNC. The other is the integration of the operating systems of the acquired company.

The first type of integration aims at integrating the organizational, administrative and social systems used by the acquiring MNC for coordination and control of its foreign subsidiaries. The integration of operating systems takes place in order to achieve various forms of coordination benefits between the acquired subsidiary and the rest of the acquired group.

No big differences were found concerning changes in the coordination and control systems for acquired subsidiaries within each MNC or between MNCs. The functioning of the various systems varied a great deal among the groups of companies under study.

The integration of the various operating subsystems varied a lot both among the groups and within each group.

In order to achieve integration of coordination and control systems on the one hand and operating systems on the other, a certain amount of integrative effort must be devoted to integrative work. The factors that seem to explain differences in amount of integrative effort between the various integration processes under study were:

- The size of the subsidiary
- The strategic motive for the acquisition
- The complexity of integrative devices used

Various integrative devices used in the processes under study were identified. They were classified in two major categories, depending on the nature of the device. These were:

1. Managerial integrative devices
    - Specialists from acquiring group
    - Project groups/committees
    - Outside consultants
    - Ad hoc task forces
    - Subsidiary board of directors
    - The choice of key managers
2. Structural integrative devices
    - Formal meetings
    - Informal managerial contact
    - Intracompany training activities
    - Ad hoc information meetings

The complexity (the number and differing types) of integrative devices used in an integration process was found to vary with the strategic nature of the integration objectives and to some extent also with the size of the subsidiary.

It was hypothesized that an optimal structure of integrative effort and complexity of integrative devices would exist. One of the major roles for group top management in the management of the integration process was then stated to be to identify this optimal structure. Other major roles were to formulate acquisition strategies, to act as a conflict-resolution mechanism, and to delegate authority to people assigned with various integrative tasks.

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4 MANAGEMENT OF THE POST-ACQUISTION PROCESS IN DIVERSIFIED MNCs

INTRODUCTION

The purpose of this paper is to explore how diversified MNCs manage the post-acquisition process and to discuss the particular management problems which often arise when a foreign acquired company is integrated.

The data on which our observations are made was collected in two large research projects (see Appendix), both of them conducted and financed by the Institute of International Business at the Stockholm School of Economics.

The reason for the choice of the topic is that during the research, it was mentioned many times that the most crucial and difficult part of the whole acquisition process was the integration of the acquired company into the existing systems and structure of the acquiring company.

Acquisitions that from the point of view of portfolio theory could be classified as excellent have sometimes later on turned out to be failures as a result of mistakes made during the integration phase. If analyzed in the context of diversified firms, the starting point would be to hypothesize that related acquisitions need a higher degree of integration in order for the firm to realize the potential synergy effects that are involved in the process.

This could in its turn create more problems for the integration work as a higher degree of diversification implies larger changes in the existing systems, functions and structure of the acquired company and the risks in connection hereby that the reactions and responses from management and personnel in the acquired company could hinder a successful outcome of the process.

SYSTEMS FOR MANAGING INTEGRATION

The systems for managing integration are used by corporate managers in order to compensate for their inadequate understanding of the marketplace. In other words, the conditions calling for use of administrative systems in unrelated diversified firms are more applicable since the product/market relationships are more complex. This additional complexity of the diversified firm historically has led to a divisionalization and also decentralization of decision-making. Corporate management usually does not have first-hand information or knowledge about the marketplace and cannot make decisions of a strategic nature involving the business level without relying on the information from, for example, the financial reporting system, and hence its ability to affect the business level is only indirect. Simon (1947) calls this indirect influence procedural in contrast to substantive influence. In the unrelated diversified firm, corporate management's understanding at the business level is less than in related diversified firms, and therefore it is not plausible that substantive influence will be exerted to the same degree. One would also expect that corporate management relies more on integrative devices or systems to get procedural influence. This influence is not concerned with substantive issues but rather with manipulation of the decisional context, or the perceived rules of the game. Normann expresses it in the following way:

> The systems affect behavior in the organization through influencing flows of information, focus of perception, resources for problem-solving, as well as individuals' and groups' ambitions and perceptions regarding desirable behaviors. (Normann, 1975, p. 153)

For similar views, see Bower (1970) or Stymne (1971). The study by Cyert and March (1963) also supports the hypothesis that unrelated diversified firms need more communicating devices between different levels, since the cognitive range of managers becomes relatively more limited when the degree of diversity increases.

The planning and control system is one of the means through which corporate management controls the business units and through which the demands on responsible managers are communicated. In this category there exist, of course, many different devices which play a significant role in the relations between corporate level and the management of the acquired company. Lorsch and Allen (1973) found that managers perceived the budgeting process and budget reviews to be among the most valuable devices for managing diversity. Therefore it seems likely that the budget process becomes more important in the case of an unrelated acquisition.

Corporate staffs usually play an important role in the planning procedure (Rossotti, 1968; Steiner, 1969). Since unrelated business firms usually do not have large corporate staffs (Berg, 1971), it seems unlikely that planning is an important tool for integration in unrelated business firms during the post-acquisition phase.

The next system which corporate management can use to manage the acquired company is the reward system, by which is understood the rewards and sanctions corporate management can employ to reinforce a behavior which is consistent with the objectives and the prevailing values of the company.

There are many different variables corporate management can manipulate or intervene with in the reward system: changes in compensation policy, prestige, status, self-esteem and external recognition. Mace and Montgomery (1962) found in their research that poor handling of the acquired companies' executives in the integration process caused several failures.

Salter (1973) argues that the reward system must be tied to the strategy of the firm. Since unrelated business firms are more likely to acquire companies without regard to the existing portfolio of business, and instead to focus on financial characteristics, it is plausible that they use at least the financial reward system more frequently as a control and integration mechanism. Berg (1965) also found this in his study.

Communication systems are sometimes used to denote the exchange of information of systems outside the planning and control system. It seems likely that the informal communication system is of greater importance in unrelated diversified firms since the management philosophy tends to favor informality and to avoid bureaucratic "paper mechanisms".

Roy Ash, then president of Litton, (in Bower, 1977) was quoted as saying:

> We elect to manage by not managing. We have one rule - there is no rule. And our policy is, we have no firm policy. What is there left for management to do? The management of capital. We are decentralized, period. We grew up decentralized. We leave acquired companies alone becuase it is ridiculous to make everything conform to one pattern. You destroy everything that was there.

Other mechanisms for corporate management to integrate acquired companies are task forces, integrating roles and departments, rules, direct contacts, and board meetings.

RESEARCH OBSERVATIONS

There are several ways of analyzing and describing the post-acquisition process. (Or what is generally called the integration process.) The major issues could be summarized as how to manage integration of an acquired company into the structure, systems, climate, etc of the acquiring company, and what tools or devices are being used to succeed in this. It is possible to list a substantial number of such tools and devices. This is, however, not the purpose of this paper. Instead, we will concentrate on a certain number of important issues that we have been able to extract from the research work and from more informal discussions with a number of chief executive officers in large diversified companies. In the next section we will try to draw some general conclusions regarding ways of improving post-acquisition management efficiency.

Here we will focus on some issues of major importance in the integration process. First, we will discuss different ways of initiating and implementing the integration process in terms of magnitude of integrating devices used and the time period after which they are imposed on the acquired companies. Second, we turn to the response of the acquired company to the integration effort - this may differ widely from close operation to persistent resistance to all attempts at integration into the acquiring company. We then discuss effects of changes inherent in an acquisition on the existing group companies - the (possible) culture shock that could occur as a result of the mixture of organizational cultures and different management styles, the necessity of preventing key personnel from leaving the company, and finally, the danger in failure to understand the nature of the business of the acquired company.

Magnitude and time needed for integration

A crucial part of the integration process is how the integration is managed and when it is initiated in terms of harmonization of administrative systems, changes in the composition of the management group, restructuring operating systems, etc. By analyzing research cases, we have been able to distinguish certain patterns regarding the manner in which the integrative work has been carried out (described in terms of magnitude and timing of initiating and handling the integration process). The classification scheme employs the concepts Blitzkrieg, the Trojan Horse, Infiltration, Cooperation, Allies, and Do Nothing (Leave Alone).

The Blitzkrieg

Here the integration work starts immediately when the deal is concluded - administrative routines of the acquiring company are fully adopted by the acquired company after a very short time. Problems have arisen in several cases where the reception has been less than enthusiastic in the acquired company. An example illustrates this:

Company A bought another company in Holland. Within a week after the deal was concluded, A's so called "Tiger Gang" arrived at the Dutch company and started working on adapting the acquired company to the use of A's computerized reporting and planning systems - this was completed within a couple of weeks' time. In connection with the introduction of A's administrative routines, meetings and seminars were held with the participation of relevant personnel, where they were introduced to and trained in the use of the systems.

In a questionnaire survey,[1/] it turned out that in 38 per cent of all cases the introduction of administrative

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[1/] See Appendix.

routines has been carried out within a month's time after the take-over. Within the category classified as successful acquisitions the corresponding percentage was 42 per cent, that is, a slightly higher proportion than in the total sample.

If one looks at the nature of the acquired company, it is hard to find any significant difference between those cases when the acquisition is related, dominant or unrelated (that is the case when the acquiring company is a conglomerate).

The Blitzkrieg seems to be equally common in all types of acquisitions with the exception of unrelated acquisitions. Here Blitzkrieg is more frequently used as means of integration. When and where Blitzkrieg is used seems to be very much the result of different management styles and of the traditions prevailing in the acquiring company.

For various reasons the integration of operating systems (production, marketing, R&D, etc) is not likely to be carried out as fast as the introduction of new administrative routines. However, in several cases, this more complex part of the integration process has been found to be initiated shortly after the actual take-over. No difference was found between integration processes of different strategic nature (i.e. related-unrelated).

The Trojan Horse

A specific case of Blitzkrieg is what we call the Trojan Horse - the case when the acquiring company appoints a strong person as new managing director of the acquired company more or less immediately after the completion of the acquisition agreement. He has been assigned a certain time period to "settle down" in the new company and to

prepare personnel and managers for what is to come. When this initial "honeymoon" is over, the integration is started up in full force to and to its full extent.

We have been able to observe several cases of the Trojan Horse. One should bear in mind, however, that although a new managing director has been appointed by the acquiring company, this does not necessarily imply that he is the same person who later on initiates and manages the integration process - in many cases the responsibility lies with a divisional executive president or a group executive vice president (president of a unit consisting of several divisions).

Infiltration

As in the case of the Trojan Horse, the purpose of "infiltration" is to prepare the ground for a high degree of integration of the acquired company. For several reasons, most often caused by a strong resistance to the purchase among one or several key persons in the acquired company, the aim of the acquiring company is to handle the process carefully, that is, not as in a Blitzkrieg, in which all potential opposition by those affected in the acquired company is ignored. This can be done in several ways:

- Either by removing people judged to be a risk. (However, there is a danger that others who are also negative to the acquisition will be "pulled along" and resign - the so called "House of Cards Effect". See page 137.)

- Or by placing the acquiror's own people in several positions in the company, either by replacing people judged necessary to remove (see above), or simply in newly created positions considered crucial from the point of view of integration, i.e. the plant manager, the production manager or the financial manager.

Their task often seems to be to make the policies, routines, and also the management style of the acquired company as similar as possible to those of the acquiring company.

Infiltration has been used as a tactic in a number of integrations in the cases we have studied, thus being part of a well planned process as compared to the use of a Trojan Horse, where much of the influencing activity is left to the initiatives of the appointed MD.

It deserves mentioning that infiltration very rarely occurs in its pure form - in many cases this tactic is more connected with what one could classify as cooperation. Nor have we been able to find any case where infiltration has been used in an unrelated acquisition. This of course is not totally unexpected - an unrelated acquisition by definition has no need for integration in major operating systems (but does have it in finance and administration).

The use of an infiltration tactic also seems to be more frequent where the acquisition has been made in a country where the acquiring group already previously was represented by a subsidiary. An example:

Company B acquired a local manufacturing company in France. The main objective for the acquisition was to create a platform for an expansion of the group's activities in Europe. No immediate action was taken, but a manager from the acquiring group was appointed vice president in the acquired subsidiary. The president, who was the former owner of the French company, was not informed of the strategic plan for the subsidiary, which included the transfer of technology from the acquiring company in the long run to drop the present activities (even if they were related to

those of B). Half a year after the takeover the president of the subsidiary was informed of parts of the total strategic plan by top management in B. They let him know that his vice president was to have the responsibility for the implementation of the plan. It was now too late for the president to refuse to accept the plan, and he cooperated in gradually handing over the overall responsibility for the subsidiary to his vice president.

Cooperation

This is the ideal case in the eyes of most managers - active cooperation by both parties aimed at achieving all potential synergetic effects as soon as possible at integrating the acquired company into the organizational structure and the administrative systems of the acquiring company. This entirely positive attitude does not usually prevail; even when it does, it is seldom used in the most efficient way possible. Rather, in many cases the acquiring company tries to create a cooperative climate through various actions, for example, by the formation of joint merger committees and joint training programs focusing on project work, and by the use of task forces.

Whether a cooperative climate will result is thus dependent on how the acquisition has been made. If the acquisition is of a hostile nature, i.e. by making a hostile tender offer to the shareholders of the acquired company, there is good reason to expect difficulties in establishing a cooperative climate.

In certain countries, the fact that the acquisition has been made by a foreign company also creates distrust and uncertainty - this issue was often mentioned in interviews with people in the acquired companies. In some cases this had been countered with incentives and massive information to personnel in the acquired company, but it is still an

obstacle to efficient and successful management of the integration process. We will return to this topic under the section "Responses".

Company C succeeded in an integration program after having acquired a relatively large US company with substantial overseas operations. The major problem in the integration was the merger of the subsidiaries of C and the US company in each country where they were both represented. A starting point for the program was the principle of "equal treatment", regardless of prior company affiliation; i.e. C's own subsidiaries were not to be favored when merged with the US company subsidiaries if this was not justified for pure business reasons. By successfully communicating this principle to managers in the US company, they also turned out to be very cooperative. The integration work was organized in joint committees consisting of representatives from both companies, where competence and specific knowledge determined who was appointed to the committees. During the integration work internal education programs were held for participants from both companies - the programs included comprehensive project work on future strengths and weaknesses of the merged organization, as well as a review of experiences with both the past and ongoing merger activities to form future acquisition guidelines for the Group.

The example shows at least two very important aspects of the post-acquisition process: first, the necessity of communicating intentions, and second, the need for using integrative devices in order to break down resistance to change from persons in both companies.

Allies

The feeling of being allied with the acquiring company is not a frequent one, but has been identified during the research in those cases when the acquired company itself actively has sought to be acquired for various reasons. For example, the acquired company may have had insufficient financial resources; the high cost of capital may have caused a drain on limited financial means and thereby made it desirable to find a cash-rich acquirer. Other deficiences in the acquired company have included inadequate facilities, deficient raw material supply, obsolete technology, or severe marketplace problems.

The situation is different in these cases as seen from the acquirer's point of view - if it has accepted the role of a "liberator", it is also in a position to demand much more from the target company concerning the latter's participation in and attitudes towards the integration work.

Do Nothing ("Leave Alone")

The most limited commitment (in reality no involvement at all) is of course the "Do Nothing" alternative. The acquirer has chosen to let the acquired company continue its own life without any interference in its operations at all.

This approach is commonly found in unrelated acquisitions, where there is no need for integration of operating systems. It has also been used by acquiring companies when the acquired company is a small family-owned company, where interference in the business could easily lead to a loss of management, management often consisting of one entrepreneur.

It should be noted, however, that although no integration of operating systems takes place, the administrative systems of the acquired company are altered more or less thoroughly to correspond to the ones used in the acquiring

MNC, i.e. planning and control systems were changed or newly established in the acquired subsidiary.

Responses by acquiree

One may observe different forms of introducing and conducting the work of integration in terms of the magnitude of integrative work and the time consumed in undertaking the whole process; similarly, we may note different patterns of response by the acquired company to integration plans and integrative work. By response is meant attitudes, which to a greater or lesser degree are expressed in actions, and also specific steps as a direct consequence of integrative efforts by the acquiring company. It appears as if it is the character of these responses which is most critical to the success or failure of integration. One CEO puts it this way:

> It is really not a matter of plans or tactics; it is simply a problem of managing people and people's attitudes towards changes that we have judged necessary to undertake.

From the research data we have classified different types of responses according to a scale varying from positive receptiveness to integrative efforts, to cases of open opposition on specific matters. The classification scheme used the concepts Liberation, Resistance Movement, Cooperation, Peace Movement, and Collaborators.

In the questionnaire study it was indicated that the acquisition was favorably received by management in 95 per cent of the cases and by other employees in 81 per cent of the cases. No significant difference could be observed between domestic and foreign acquisitions.

Liberation

As was mentioned in the section on Magnitude and Time, an acquisition may be initiated wholly by the company subsequently purchased, which itself is actively seeking a buyer for various reasons. Responses to integrative efforts will then be positive. Consider the following example:

A small family-owned French company had been looking for a buyer for over a year, one reason being that profitability was gradually declining, mainly because the market for the company's products in France was mature. Another reason was that the owners, who had certain financial and tax planning needs, preferred selling the company rather than, for example, trying to go public. They realized that being acquired was the only way for the company to obtain the capital and financial resources needed to fund its future growth and expansion. They approached company C, a diversified Swedish multinational company that through one of its divisions had operations in the same business segment as the French company. It was decided by C, however, to "wait and see", and eventually offer a lower price. This also proved to be a successful policy - after another half year the French company was bought by C. The integration process started almost immediately with the active involvement from the French side.

Acquisitions initiated for motives of liberation are becoming more and more common as divestments are becoming a more frequently used tool of actively managing the business portfolio, also in an international company (Boddewyn, 1979; Lindgren and Spångberg, 1980); the main reason is here often financial, but other factors may affect these decisions as well. Often a firm will divest a profitable subsidiary that does not fit - a strategic dimension, but also organizational or personal factors may play a part in the decision.

Cooperation

As mentioned previously, a cooperative climate is most ideal for conducting a process of integration. Just as the acquiring company tries to get the acquired company to cooperate in the integration process, so can the response by the latter company be one of actively seeking collaboration. If this is to occur, obviously some incentive for the acquired company must exist or be created. Steps cited in the research as important for establishing a cooperative climate (or avoiding a more hostile response from the acquiree) will be discussed further in the concluding remarks.

The Peace Movement

In some cases one could find what could be called a "Peace Movement" - that is, an unspoken disagreement with the measures undertaken, but without resistance to changes or other forms of more or less active resistance to the process of integration. One integrative device used in many cases was a strong CEO in the acquired company, who through actions and support got his subordinates to accept what had happened and to cooperate with the acquiring company to achieve successful integration. However, where there is a peace movement, there is also a great danger of a so called "house of cards" effect: if one or more key people depart or stay on but oppose the integrative effort, they can get others to join them and thus cause great damage to the ongoing business.

The Collaborators

In many cases where the overall attitude to the acquisition is negative, there are one or several persons who perceive the acquisition as beneficial for the acquired company. They usually start exhibiting their favorable view of the acquisition to representatives of the acquiring company at an early stage; during negotiations or the closer study

of the potential acquisition by persons from the potential buyer. These so called collaborators are running a big risk, however; if the acquisition falls through, they have often played their hands and have to live on in disgrace among their colleagues whom they previously ignored (assuming they are allowed to do even this - collaborators are often fired if the acquisition does not go through).

An example: company D was negotiating with company Z on the purchase of one of Z's divisions. Z had initiated the negotiations. For various reasons, however, Z soon began getting doubts about whether it really wanted to sell. Company Z then proposed various alternatives to a sale, such as formation of a joint venture or some form of organized cooperation in selling. But one of Z's managers (the finance director) strongly favored selling the division on the ground that the potential synergy effects were too great to be ignored. He argued for his position in opposition to that of his own CEO and in full support of the reasons given by D's representatives. After a while Z decided at any rate to reject the purchase offer for reasons that seemed rather unclear to the researchers. Six months later D decided to make a hostile tender offer to Z's shareholders. After various happenings, success was achieved and D assumed ownership of Z. Z's reaction was extremely negative - virtually all executives left after a while, and finally Z's former head office was closed and moved to D. One of the few Z managers left was the former finance director - he was also appointed interim president for the time required to prepare for the final integration of Z's operations into D's organizational structure.

The Resistance Movement

More outspoken resistance than what was termed the Peace Movement can arise as a result of a Blitzkrieg or of a

"do nothing" policy of the acquiring company. Resistance may be of a more or less active variety - in certain extreme cases one may even speak of Guerilla Warfare. If this kind of resistance occurs, the acquisition almost always fails - the company must be resold or disposed of in some other way. It is very hard to find replacements for all the people who are unwilling to cooperate in the integration. Resistance has been observed primarily when the nature of the acquisition was hostile or unrelated (in the latter case when the approach to integration was Blitzkrieg or Do Nothing in character).

The Cinderella Syndrome

An acquisition not only affects the managers and other employees of the acquired company - obviously, there will also be reactions among the people in the existing group. Particularly in companies with an aggressive acquisition policy, there may be feelings of insecurity and of inability to influence what happens to one's own company within the sphere of operations of the entire group. What we may call the "Cinderella Syndrome" may arise. (This concept was coined by representatives of company C during internal training programs designed to collect experience from past acquisitions; the programs were arranged for personnel in several of the companies recently acquired.) And there is also a risk that this syndrome could grow in significance throughout the group as each company with the passage of time becomes a part of the "old" group. The feeling develops that comparisons are being made among companies in the group. This is a new experience for the older group companies, and there may be a widespread sense of insecurity among employees who feel powerless to influence the results of these comparisons.

The problem becomes particularly serious if most of the expansion takes place within one division or group, while other units do not expand nearly so much.

Lack of knowledge of the overall group policy and lack of understanding of the aims and reasons for further expansion appear to be a contributing cause of the Cinderella Syndrome. Ways to solve this problem include better communication of business policies, exchanges of personnel among divisions, and "interlocking directorates" (see Hedlund, 1979).

The House of Cards Effect

As previously stated, there have been cases where one or more key persons have left the acquired company, either directly after the acquisition or after a period of more or less open disapproval of the acquisition or of the manner in which the work of integration is conducted. In related acquisitions there is a great need to achieve operating synergy - this may be done either by having integration play a constructive role (cross fertilization) or by looking for opportunities for cost reductions. Examples of the latter are cutting the joint sales force, merging administrative resources and thus avoiding duplication of procedures, using common production lines to achieve economies of scale, etc. This often implies more or less major intrusions into the territory of other people and sometimes the removal of managers. When realizing that a similar fate is in store for them, many managers could be induced to leave the company "ahead of time" and thus leave behind a vacuum which may be difficult to fill. The situation becomes particularly grave when these key people also take one or more loyal subordinates with them. The end result can be a house of cards effect, with the acquiring company being left to manage and run the new subsidiary more or less by itself. This can

be a disastrous blow to the chances for survival; it may lead to lost customers, non-deliveries, credit cut-offs, and many other consequences. One way successfully used by several companies to avoid a house of cards collapse is first to try to find potential troublemakers as soon as possible (preferably right during the purchase negotiations) and then try to get these people to leave voluntarily (by rewarding them with sufficiently large severance payments). The next step is to have a thorough talk with all the remaining managers to ensure that they stay on at least long enough to permit replacements to be appointed and trained.

The Culture Shock

"Culture Shocks" have occured for several different reasons, but basically they all arise from differences in management styles and in internal company cultures between the acquirer and the acquiree. Changes in one or both styles are often necessary; and tend to take place anyhow over time. In many cases it is rather obvious which of the parties will have to "step aside" - if the acquiree is small in size compared to the acquirer, it is rather unlikely that the latter would be severely affected by the management style and corporate culture prevailing in the acquiree prior to the merger. If the acquired company is large and of major importance to the acquiring company, there seems to be a tendency to change also at the former.

One could, however, distinguish different patterns in the cases under study. These are determined by how and to what extent management style and company culture have changed in the acquiring and the acquired company respectively.

The Crushed Culture

Company A, as mentioned earlier, has a policy of fast and substantial integration work. They seek not only to adapt administration and production routines to those of their own, but at the same time change the existing management style to resemble A's own (which is characterized by a high degree of formalization and narrowly defined areas of responsibility). And they try to do all this as fast as possible.

In the acquisitions by A which were involved in the study, the earlier culture has had to "give itself up" and has been replaced entirely by A's company culture.

A crushed culture does not necessarily have to lead to negative effects - in many cases the companies adapt to the new pattern, and we have even been able to find tendencies toward actively imitating the style of the acquiring company (cf. Hedlund, 1977).

The Balanced Culture

A balanced culture is not as frequent for the simple reason mentioned earlier: it requires that the companies be of approximately the same size so that a change in management styles may occur on both sides - the situation is different in pure mergers, where the companies by definition are of the same size.

A Group Executive Vice President commented as follows:

> The task of blending two different cultures and the management of resistance to necessary changes in the two organizations have for me created the two most difficult problems during the whole acquisition. My aim is to develop an 'optimal' company culture, where the best parts of the two existing cultures together would create a new and better culture, and also a new and better management style.

CONCLUSION

Every acquisition program is unique regarding both acquisition motives and the implementation of the post-acquisition process. The most important factor when it comes to post-acquisition management seems to be the ability of managing people rather than systems or structure. In their answers during interviews, CEOs in all types of firms (diversified as well as single business firms) mention this phenomenon as the single most important issue to bear in mind when preparing and undertaking necessary integrative measures.

In research made on the management of headquarter-subsidiary relationships in MNCs, it became clear that some MNCs substituted formal administrative systems to a large extent by using a lot more travelling, telephone calls and other communication channels. When following up this observation by comparing to what extent existing formal administrative systems were being used to integrate the new subsidiary, it turned out that the general pattern in MNCs also was followed in the integration process - i.e. a highly formalized company tended to integrate newly acquired subsidiaries by using existing formal systems, etc.

We have tried to point to some issues where this problem arises - the necessity of a careful judgement before deciding on the magnitude and timing of the integration work, how people in the acquired companies might react to the actions taken by the acquiring company, the danger of losing key personnel, the potential risk of some key persons starting a mass movement that could prove extremely difficult to stop, and also some possible outcomes of the eventual struggle that could occur as a result of mixing two different company cultures.

In our analysis of the underlying explanatory factors as to why and how different effects occur, we have found that the degree of diversification per se does not explain, for example, the method used to integrate the new company into the existing systems and structure. We have been able to note that unrelated acquisitions, if seen from an administrative point of view, tend to be integrated very rapidly. When it comes to related acquisitions, the situation becomes somewhat different - here there is a need to integrate operations, which require the use of different integrative devices, such as imposing a new production planning system, a common accounting system, etc.[1] But on the other hand, the response by the acquired company does not necessarily become more hostile even though the integration impact is larger in the case of integration of operations. The benefits which the acquired company believes may occur as a result of the integration process seem to be more important than possible negative attitudes towards the fact that the company is no longer independent. Also, as has been shown in research studies (e.g. Berg, 1971), the size of the corporate office is larger in related business firms than in conglomerates, thereby allowing a more thorough effort by the acquiring company when it comes to assigning people to the job of integrating the new company - it implies considerable opportunities for working with task force committees, common project work, helping the new company to adapt to systems that are imposed on it, etc. It should be noted, however, that exceptions from this rule are very common - in many cases the situation is rather the opposite, that is, the corporate office of the related business firm is much smaller than the one of the conglomerate. In these cases, however, divisional offices and

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[1] For a thorough description and analysis of integrative effort in terms of time needed for completion of integration work, see Lindgren (1980).

staffs are much larger. In related business firms having small corporate offices, group executive officers take over a lot of the responsibilities that earlier were carried out by the CEO himself. (On the subject of Group Executive Officers, see Oreal, 1980.)

Another factor of great importance is the degree of interdependence in production between the acquired and the acquiring company - a high degree of interdependence leads to a more complex integration effort in order to achieve operating synergy from economies of scale in production, materials handling, ware-housing, etc.

Quite a few cases were found where the lack of knowledge of the acquired business caused severe problems when trying to manage the post-acquisition process. This seems to evoke feelings of uncertainty and mistrust at the acquired company. Of course, it could also prove disastrous in the future management of the company. A specific problem here is the tendency of the new owners to believe they understand the business well enough to reorganize it - without this being the case.

A general problem in all types of merger activities is the workload assigned to managers responsible for the acquisition. Simultaneously, working on the integration process and conducting the ongoing business activities puts a great strain on these managers in their attempts to allocate their time optimally.

To conclude, it is hard to find any clearly distinguishable pattern in integrative processes. The problems are unique in each case and the specific situation may require different kinds of unique solutions. The purpose has been to show broadly defined patterns that may explain some major parts of an integration process.

MANAGERIAL IMPLICATIONS

The integration of acquired companies in a diversified firm must be guided by a carefully planned and controlled process aiming at creating the necessary means in order to establish a perception of legitimate changes in the structure and systems of the acquired company.

Management must realize that in order to integrate an acquired company, the specific characteristics of the acquired company and the nature of the acquisition process must be taken into account. This implies careful planning of the integration process already in the pre-acquisition period so as to be able to effectuate directly after the acquisition agreement is concluded.

An acquired company may or may not be in the same growth stage as the acquiring company. It has been shown that administrative systems and management style tend to change in connection with the increasing degree of diversification of a firm - a higher degree of diversification leads to a higher degree of structural complexity and thereby creates a need for a higher degree of complexity in the control and administrative systems. If the acquired company has had a lower degree of structural complexity and thereby less complex systems, this must be recognized when establishing how the integration should be conducted.

Once this has been identified, arrangements must be made in order to support the management of the post-acquisition process which correspond to the needs of the specific situation.

The more related an acquisition, the higher is the degree of integration needed in order to benefit from potential synergetic effects as a result of the acquisition. This

implies that responses from managers and personnel in the acquired company may be more negative if the integration is not carried out in a proper way.

If the acquired company is located in another country, the acquiring MNC must recognize the specific circumstances arising from what one could call a "foreigner syndrome" in the acquired company.

APPENDIX

Research methodology and design

The empirical data for this study was generated from two different research projects, both of them conducted and financed by the Institute of International Business at the Stockholm School of Economics.

The first research project is called Management of Strategic Changes, which is an intense study of a limited number of firms (two). Selection criteria were the following: the variables involved in the work were strategic changes and their management, structural arrangements, the environment and the strategic situation of the firm. A considerable number of in-depth interviews were made at the two companies combined with a comprehensive study of written documents and other material of both external and internal nature.

The study was conducted by Kjell Spångberg and Jan-Erik Vahlne.

The second project is called International Acquisitions. The research design in this project is based on comparative case studies. Environmental and structural variables have been controlled to as large extent as possible. In total, five Swedish multinational corporations were investigated in which totally eleven acquired subsidiaries were being studied. This study was combined with a written enquiry to twenty-five Swedish companies which have acquired at least one company in Sweden and one abroad since 1977, when the questions were concerned with both the planning, implementation and integration of the acquired companies and relating this to contingency factors both at the acquiring company's level, as well as at the acquired company.

Project co-ordinator was Ulf Lindgren.

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5 SUMMARY AND CONCLUDING REMARKS

The previous articles have dealt with various phases in the acquisition process. In this chapter we shall elaborate further on the factors that are likely to determine the outcome of an acquisition. The first section deals with reasons for acquisition failures identified during the research. They can be referred to different parts of the process. The second section contains a more comprehensive discussion on efficiency of post-acquisition management. It describes the different forms of integration of coordination and control systems (i.e. administrative, organizational and social integration), as well as integration of operating systems. We will also analyze the influence of the strategic and environmental context of the MNC on the need for and mode of integration of coordination and control systems. Finally, a set of criteria for efficiency in the integration process is put forth and discussed.

REASONS FOR ACQUISITION FAILURES

As was said in the introduction section, although related acquisitions have the greatest potential for realization of synergy, the failure rate is higher than for unrelated acquisitions. This dilemma will be elaborated further in this section. But the discussion will also focus on reasons for acquisition failures in general. Kitching

(1973) found that about half of the cross-border acquisitions in the study could be classified as either failures or "not worth repeating". Bane and Neubauer (1981) found that the failure rate when measured by the liquidation of the company within twenty years after entry was 49 per cent for direct acquisitions and 15 per cent for indirect acquisitions (for definitions, see chapter on Background and Introduction).

The reasons for this seem to be the following:

Wrong assessment of acquisition candidate

One reason for failure is the wrong assessment of the acquisition candidate. Wrong financial assessment of the company's value could lead to over-paying the selling company. If it later on turns out to be worth less than expected, it could put strains on the financial flexibility of the acquiring company. This argument is also favored by Salter and Weinhold (1979, p. 46). The failure to correctly assess the value of the acquisition candidate could be due to either a lack of knowledge of the specific product/market areas in which the candidate is operating, thus preventing or hindering an accurate estimate on for example future earnings potential, or the lack of or limited access to relevant information about the candidate. The latter has often been found to be the case when the target company is a small family-owned company, or when the company does not publish comprehensive annual reports.

The wrong assessment of the candidate's product/market areas and thereby the potential operating synergies is a more severe mistake. Of the acquired subsidiaries in the study, two had been wrongly assessed on this point. Naturally, the failure to recognize the real potential coordination benefits results in big problems for management in

the acquiring MNC. When asked to explain the major reasons for the failure, the executive vice president of one of the acquiring MNCs commented upon this as follows:

> The proposal to acquire this specific company originated from the business development department. Unfortunately, no line manager ever got involved in the assessment of the proposal. On paper everything looked perfectly logical - the synergies were easily recognized. In reality, however, no cross-fertilization whatsoever was possible to explore. They (the staff unit) just did not know the realities of the marketplace.

I shall return to the importance of organizing acquisition task forces and project groups below.

Lack of clear acquisition policy

The pursuit of any acquisition program intuitively ought to be based on a policy drawing up guidelines for what types of companies are considered to be potential acquisition candidates, that is, what criteria should a potential target company meet. However, in several cases it was found that no clear acquisition policy had been formulated by management in the acquiring groups. Only in one of the five MNCs studied a written acquisition policy existed. In this case the policy had been successfully communicated to the divisional level. A lot of the responsibility for carrying out the acquisition was given to the divisions. In at least one of the cases that could be classified as failures, the major reason was admitted to be the lack of guidelines for an acquisition program. In this case, the acquisition was initiated and handled by one division in the acquiring company.

These findings are in line with those of Salter and Weinhold (1979). They argue that separate guidelines should be developed for unrelated and related acquisitions. The reason for this is said to be that related and unrelated diversifications imply different means of creating value for shareholders.

In my opinion it is also necessary to clearly define what is required in terms of relatedness if a related diversification strategy is to be pursued, that is, what types of technology and/or market characteristics fall within the scope of the MNC's overall corporate strategy. Without this narrowing of the scope for potential acquisition, there is a big risk that an acquisition fails to meet the requirements for value creation for the acquiring firm.

Time and managerial capacity restraints

Many companies had a poor profit development during the 1970's. When they have had to spend their time with cost cutting and restructuring activities elsewhere in the organization, a newly acquired subsidiary many times becomes unattended. To succeed with both profit improvements in the existing group and to expand the operations in the acquired unit demands extraordinary management resources. Companies which have decentralized decision-making and kept a small corporate office have in several cases been unable to supervise the new business, simply due to lack of time and management resources.

Lack of integration plan and continuity of integration work

Several studies (Berg, 1969; Kitching, 1973; Leighton and Tod, 1969; Mace and Montgomery, 1962; Madsen, 1979; Miller, 1963; Salter and Weinhold, 1979) have shown the importance of the management of the post-acquisition

process. They all stress the importance of careful planning of the integration work.

Kitching (1973) discusses various measures to be involved in the integration work. He underlines the necessity of management of change. Kitching says (p. 185):

> In summary, post-acquisition success comes from the Pattons, not the Eisenhowers: The men who have the energy and the political skills to effect change on the one hand, while running the company with the other. If you have enough 'managers of change' for the job, then you have a success. If you don't, then the strategist's plans will not be fully achieved.

Mace and Montgomery (1962) identified several conditions for successful corporate acquisitions. These included competent management in the acquiring company who can quickly adjust to being responsible for doing business in new industries, or the employment of executives from other companies who have experience in the new field. They also stressed the recognition by the acquiring management of the different requirements for success in different industries.

Miller (1963) concluded that, in general, the requirements on post-acquisition management in order to achieve planned coordination benefits tend to be underestimated or misinterpreted.

Leighton & Tod (1969) argue that it is important who is assigned the responsibility for the integration process. They recommend that it should be the executive vice president.

Madsen (1979) suggests that in order to avoid a "misfit" in an acquisition, an appropriate pre-acquisition analysis of the potential benefits is required. He also judges it necessary to determine how to achieve the benefits through the design of the organizational structure, the management

and administrative system, the reward systems and incentives and the development of managerial relations.

Berg (1969) discusses different roles played by the acquiring as well as the acquired companies' managers in the post-acquisition phase.

It should be stressed that the initial steps in a successful integration process should be taken before the purchase has been consummated.

Realistic goals have to be defined (see above), and a line executive involved in the identification and evaluation process. In the research, several cases showed that too optimistic expectations were never realized, and that ex post policies tended to be inefficient. In those cases where the responsibility to manage the integration process was assigned to someone who was not part of the original study group, more problems and negative results evolved during the integration work.

The conclusion then is that the integration process should be carefully planned and "tailored" to the specific requirements of each acquisition program. Equally important is to assure continuity in the integration work; someone from top management in the acquiring group should be assigned to carry out the whole acquisition program throughout all the three stages. Although not always possible because of the MNC's structure, material benefits can be realized. The manager will gain valuable knowledge about the candidates, its method of operation, and the characteristics, idiosyncrasies, and qualities of its management. Recognizing the needs, desire, and anxieties of these people is crucial if they are to be retained and to function as effective executives. If this understanding is obtained before the acquisition is made, the transition will be much smoother.

Failure to recognize key people
("The House of Cards Effect")

As described in the article "Management of the Post-Acquisition Process in Diversified MNCs", several cases were identified where one or more key persons left the acquired company, either directly after the acquisition or after a period of more or less open disapproval of the acquisition or of the manner in which the integration work was connected. The difficulty of holding employees is present in all acquisition programs (see e.g. Mace and Montgomery; and Leighton and Tod), but it was found to be especially acute when the new parent is foreign. Opportunities for advancement to top management positions were said to be fewer. Managers in the acquired companies often questioned the overseas owner's understanding of the local country's conditions and the performance of their commitment. One measure undertaken in one of the more successful acquisitions involved in the study was to appoint several key people in the acquired company, positions and directorships in the parent or the new sister sub-sidiaries.

Other successful measures include the clear communication to all new employees the intentions of the acquirer and what is expected of them, and to find potential "troublemakers" at an early state and pursuade them to leave voluntarily.

Efficiency of post-acquisition management

To summarize, for a number of reasons, and specifically through those indicated from the research results (time and cost savings, and the immediate access to local market knowledge), the acquisition route to internationalization has become increasingly important for MNCs. In line with earlier research, it is possible to conclude from this study that although acquisitions related to the existing product markets of the acquiring company are

those which show the largest potential for creation of value for the shareholders of the acquiring MNC through realization of various coordination benefits, the risk of failure tend to be higher for related acquisitions as compared with unrelated acquisitions. Some major reasons for this could be deducted from the research results and included the wrong assessment of the acquisition candidate, the lack of a clear acquisition policy, time and managerial capacity constraints, the lack of integration planning and continuity of integration work, the failure to recognize key people and inappropriate use of integrative devices.

The efficiency by which the integration process is managed could then be hypothesized to determine the outcome of the specific acquisition program. By careful planning and evaluation before the acquisition is made, the degree of efficiency and thereby also the degree to which the acquisition will succeed to create potential value, could be increased. To clearly identify the specific features that could be expected to affect the way in which each post-acquisition programs should be managed in order to realize the specific potential coordination benefits, and subsequently assign the appropriate integrative devices, thus becomes the fundamental task for the successful management of foreign acquisitions.

In the last section of this chapter, efficiency of post-acquisition management will be discussed. There we will also describe what contextual factors that influence the different forms of post-acquisition integraiton.

EFFICIENCY OF POST-ACQUISITION MANAGEMENT - CONCLUDING REMARKS

The basic purpose of the study has been to investigate how multinational corporations manage the integration of acquired subsidiaries into the existing systems and structure of the acquiring group.

As stated earlier, by integration is meant the instruments, procedures and processes used by the acquiring MNC through which changes in various systems in the acquired subsidiary are undertaken. After the completion of the integration process, the acquiring MNC coordinates and controls the acquired subsidiary. Using Leksell's (1981) terminology, the latter is referred to as headquarter-subsidiary relationships.

In the article "Strategic Aspects of Post-Acquisition Management in MNCs", the instruments, procedures and processes used by the acquiring MNC to integrate the newly acquired subsidiaries were classified as integrative devices. These were divided into two categories depending on the nature of the device. First, managerial devices, where one or more persons constitute an integrative device. Second, structural devices, where a body or an arena is established in which integrative work is carried out.

Managerial integrative devices were:

- Specialists from acquiring group
- Project groups/committees
- Outside consultants
- Ad hoc task forces
- Subsidiary board of directors
- The choice of key managers

Structural integrative devices were:

- Formal meetings

- Informal managerial contact
- Intracompany training activities
- Ad hoc information meetings

These are used differently in different groups and for different forms of integration. What forms of integration that are undertaken and the integrative effort and complexity associated with each specific form, depend on the strategic nature of the acquisition (i.e. related/unrelated) and on the environmental and strategic context of the acquiring parent and the acquired subsidiary. We shall analyze this statement more closely below. First, however, the different forms of integration will be described. Broadly, the post-acquisition phase may be divided into four major categories of integration. These are:

- Organizational integration
- Administrative integration
- Social integration
- Operating integration

Organizational, administrative and social integration aim at integrating the organizational, administrative and social systems that the acquiring MNC uses for coordination and control of its foreign subsidiaries. Hence, these forms of integration could be classified as the <u>integration of coordination and control systems</u>. <u>Operating integration</u>, on the other hand, includes the actions undertaken by the acquiring MNC in order to achieve various forms of coordination benefits in the areas of production, marketing, R&D, financial management, as well as general managerial cross-fertilization benefits.

The different forms of integration will now be described more in detail. It should be noted that this classification scheme corresponds to what in the article "Strategic Aspects of Post-Acquisition Management in MNCs" is described as integration of administrative and organizational

systems, and integration of operating systems. A detailed analysis of the nature and structure of these forms of integration is made in that article.

In his work "Headquarter-Subsidiary Relationships in Multinational Corporations", Leksell (1981) identified three major systems for the management of headquarter-subsidiary relationships. They were designated as organizational, administrative and social systems. Leksell describes and analyzes the design and functioning of each of these systems in their role in the management of on-going headquarter-subsidiary relationships. The systems are broken down into specific instruments for coordination and control.

Leksell concludes that the environment and strategy of the MNC influence the need for coordination and control of the foreign subsidiaries. Contrary to many other studies, he argues that although the context of the MNC influences the mode of managing headquarter-subsidiary relationships, this influence is not deterministic, direct or unidimensional. He also stresses the necessity of analyzing the context of the MNC, not in terms of single factors but as a whole. The relative influence of a single factor is consequently of little interest if its associations with other dimensions of the environmental and strategic context are not taken into consideration. It could thus be argued that a study of the integration process, which eventually will end with the establishment of permanent headquarter-subsidiary relationships should focus on the context of the MNC as a whole. this holds especially for the study of organizational and administrative as well as social integration. These forms of integration aim at creating permanent headquarter coordination and control of the acquired subsidiary. Operating integration is determined by the strategic nature of the acquisition, i.e. to what extent different forms of coordination benefits ("synergistic

effects") are to be achieved. A strong degree of interdependence exists, however, between the strategic nature of a specific acquisition and the strategic and environmental context of the acquiring MNC. The following contextual factors have been defined as having most influence over the MNC's needs for coordination and control of its foreign operations: (1) the size and magnitude of international operations in the MNCs, (2) the product diversity and diversification strategies pursued, (3) the nature of the customer structure and competitive environment, (4) the nature of the technology employed and the manufacturing strategy, and (5) the degree of environmental uncertainty facing the firms.

These factors are likely to also influence the acquisition strategies pursued by the MNC. What has been said above can thus be summarized in a figure:

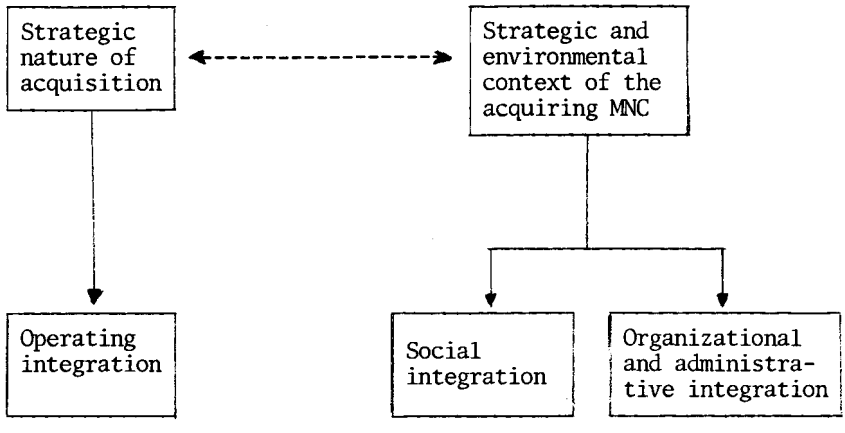

Figure 1. Factors influencing the different forms of post-acquisition integration

In the article "Strategic Aspects ..." (Chapter 3), it was stated that the strategic nature of the acquisition did not affect organizational and administrative integration. This form of integration took place more or less in the same way and to the same extent, regardless of the strategic nature of the acquisition. Variations were found between the acquiring MNCs regarding the impact and use of the various subsystems, which in its turn affects the impact of the change in each subsystem on the acquired subsidiary. Even though approximately the same number of systems are changed, the impact and use of each system per se was found to affect the way the acquired subsidiary perceives the impact of the changes imposed on it.

It is important to note that several organizational and administrative subsystems also are used as integrative devices. Before turning to the final part of the statement on page 155, it is hence necessary to shortly describe the integration of the major subsystems for coordination and control, i.e. the organizational, administrative and social systems. I will use the classification scheme regarding these systems as developed by Leksell (1981).[1/] After this I shall turn to a final discussion regarding efficiency of the management of the post-acquisition process.

Organizational systems

The organizational systems consist of several interrelated subsystems, each being an instrument for coordinating the operations of the foreign subsidiary. Organizational subsystems form part of and are strongly linked to the design

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1/ For a thorough analysis of the theory of organizational control, see Leksell, L., p. 76-88. The analysis presented in this chapter builds on this theoretical framework.

of the formal structure and hierarchy of the MNC as a whole. The following subsystems can be distinguished: (1) the formal organization structure and the rationale behind the structure, (2) the functions and responsibilities of the board of directors in the foreign subsidiaries,[1/] and (3) communication flows and patterns within the MNCs, (4) the standardization of policies and procedures, (5) headquarter committees and task forces, and (6) the role and functions of corporate and divisional headquarters.

The design and functioning of the organizational instruments can be explained largely by three factors; the environmental and strategic context of the MNCs, the design and functioning of other organizational control instruments, and the design and functioning of the administrative and social control systems. For classification purposes, organizational and administrative integration can be regarded as one integration form.

Of the organizational subsystems mentioned, differences exist as to the extent to which they are affected by an acquisition of a foreign subsidiary. Some subsystems are by definition not affected but are instead used as integrative devices (e.g. headquarter committees and task forces), whereas others are both subject to integrative measures as well as performing a role as integrative devices (e.g. subsidiary board of directors). Finally, some subsystems are the direct target for integration and are affected to the extent the acquiring MNC relies on the systems for coordination and control purposes. This will be commented upon for each subsystem below:

1/ For a detailed analyzis of the role and functioning of the board of directors in foreign subsidiaries, see Leksell and Lindgren (1980), Board of Directors in Foreign Subsidiaries, which is enclosed as Appendix I to the thesis.

Formal organization structure

The acquired subsidiary has to be integrated into the formal organization structure of the acquiring MNC. All five MNCs in the study have chosen some form of divisionalized structure. Three formal organization structures exist in the MNCs. Figure 2 illustrates these structures for each of the MNCs.

In the majority of the cases under study, the integration of the acquired subsidiary into the formal organization structure has been fairly easy to undertake. The new entity has been formally subordinated one or more existing product divisions in the MNC. If the MNC already owns a subsidiary in the country, the acquired unit is often merged into the existing subsidiary. In the case of company B, however, the new subsidiary became a product division of its own.

Subsidiary boards of directors

The integration of the subsidiary board of directors aims at assigning a role of the board of the new entity. The board has also been found to be an integrative device, i.e. the board is used in order to control or implement activities for integration purposes. Related to the assignment of a role for the board is the delegation of responsibilities to the subsidiary board. The assignment of role and responsibilities tend to be undertaken rather than late in the integration process. The composition of the board and the selection of board members also tend to take a considerable amount of time.

Leksell and Lindgren (1980) have investigated in detail the functioning and roles of subsidiary boards. The article is part of the thesis and enclosed as Appendix I.

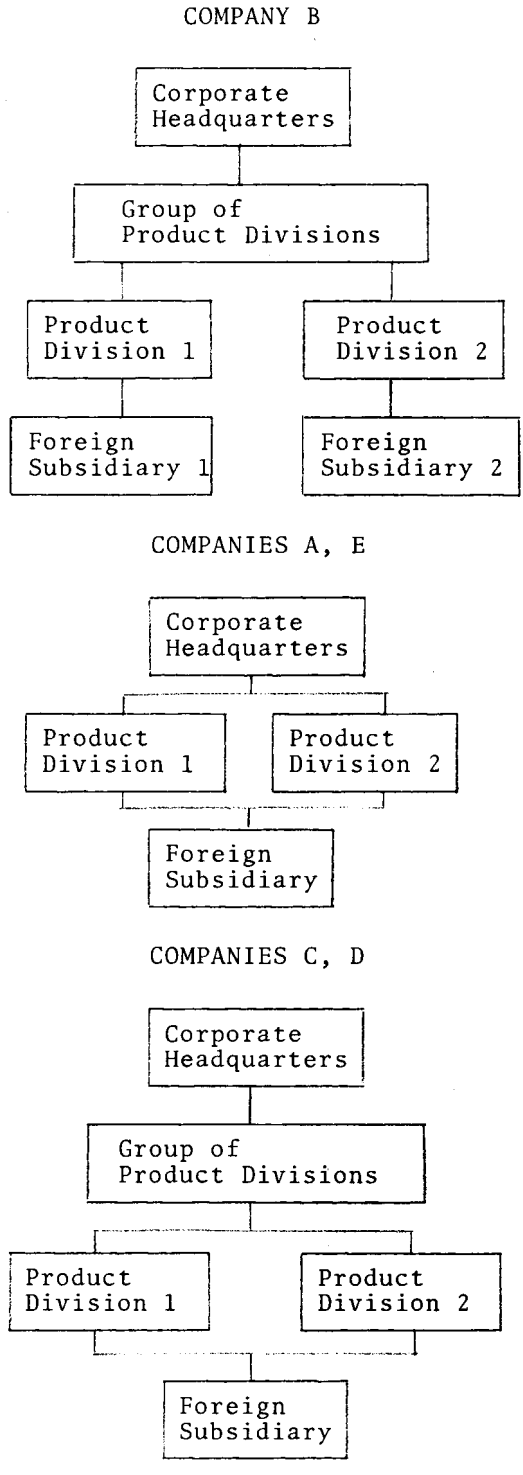

Figure 2. Formal organization structure in the MNCs

Communication between headquarters and subsidiaries

There exist both formal and informal communication flows. The former are in general structured as to channels, timing and format - hence they are classified as part of the administrative systems for the management of headquarter-subsidiary relationships. The latter are of a non-routine character and require information which cannot be prespecified and prestructured. Informal communication flows are thus classified as part of the organizational systems.

By definition, informal communication flows are not established through formal integrative devices. Rather they are created as a result of the emerging headquarter-subsidiary relationships. The research indicates that there exist two major ways by which the creation of informal communication flows are facilitated. They are:

- Staffing; by having expatriate managers assigned to work in the new entity, the parent company creates a channel through which could be communicated the nature and structure of the existing informal channels in the MNC. This enables managers in the acquired subsidiary to learn whom to contact at headquarters under different circumstances.

- Direct communication; the parent company will also create communication channels through direct communication with the new entity, thereby informing subsidiary managers to know whom to communicate with at corporate headquarters and in product divisions in order to speed up decision processes.

The communication flows between headquarters and the acquired subsidiary at different hierarchical levels can be classified as diagonal communication. Horizontal communication between individuals on the same hierarchical levels but in different organizational units (e.g. between subsidiaries and between subsidiaries and headquarter staff managers).

How the communication flows develop both diagonally as well as horizontally depend on a number of factors, all of them affecting the integration process. More specifically, the outcome is related to the communication needs in the acquiring MNC, as they emerge as a result of the needs to coordinate and control operations in the acquired subsidiary. According to Leksell, these needs are also dependent on the degree of formalization of organizational structure and procedures. With formalized structure and procedures, the reliance on informal communication flows tend to be less accentuated.

The research indicates that among other factors effecting the nature and structure of communication flows, the environmental diversity of the MNC causes variations in communication needs among different entities in the acquiring MNC. As the creation of formal communication channels and procedures is difficult (cf. Leksell, 1981 and Chorafas, 1969), the existence of informal communication becomes important. Thus, the latter complements the formal channels and procedures. Several informal communication tools exist. If seen from the point of view of integrating the new subsidiary, the creation of informal communication channels is a less structured process than the creation of formal ditos. We shall return to the latter form below.

Standardization of policies and procedures

The standardization of policies and procedures for the new entity forms an important part of the integration process. The degree to which standardization is used as an organizational instrument for coordination and control can be hypothesized to the result of differences in growth stages and product maturity among the MNCs, as well as of corporate traditions in this field in general. Organizational integration through the standardization of procedures and policies also creates a tool for downward communication in the hierarchy and forms part of the intra-organizational communication system.

Differences observed between the five MNCs are not referrable to differences between the acquired subsidiaries. The research indicates that the degree of standardization already existing in the groups usually is applied also to the new entity, i.e. the latter will be using the same standardized instruments, policy statements, written manuals etc., as all other subsidiaries in the group.

Variations among acquired subsidiaries as to how they perceived standardization depended a lot on how they perceived the overall need for organizational and administrative integration. This in turn is a function by the specific needs for standardization in the acquired entity as perceived by subsidiary managers.

Committees and task forces

Committees and task forces may function as a complement to the formal structure for coordination and control of foreign subsidiaries.

At the headquarter level, integration work is often carried out through committees and task forces.[1/] These may either be of an ad-hoc character or may be permanent in nature.

According to Leksell, the device is not used extensively at headquarter level in the management of ongoing headquarter-subsidiary relationships. The explanation of this is partly a matter of choice on the part of headquarter management not to use formalized instruments of this kind, partly as a reflection of a corporate strategy to restrict subsidiary managers' responsibilities to matters that concern only their own operations.

The research indicates that committees and task forces at headquarter level, when used for integration purposes, are more of an ad-hoc character, i.e. are formed for the specific purpose to manage the integration process. Normally, representatives from the subsidiary are also included in this unit. After the completion of the integration work, the task force and/or committees is usually dissolved.

The role of corporate and divisional headquarters

This subsystem is usually not affected by the integration process as related to a specific acquired subsidiary. However, the prevailing roles of corporate and divisional headquarters affect the integration process in at least two major ways. First, given the extent to which various staff services and functions are performed by corporate and/or divisional headquarters, these units are more or less actively involved in the integration process.

1/ See Chapter 3, pp. 85-86.

Second, the amount of effort devoted to the integration process could be hypothesized to be a function of the managerial resources available. This in its turn is partly a function both of the size (in terms of number of managers) and of the role of corporate and divisional headquarters.

To summarize, organizational systems which are used by the MNC to coordinate and control the foreign subsidiaries are affected by the integration process in either or both of two ways. First, they may be the target for integration, i.e. changed or established as a result of measures undertaken as part of the integration process. Second, an organizational system may be used as a device in order to integrate other systems. Finally, it was noted that some systems are both subject to integrative measures, as well as performing a role as integrative device. However, it is important to distinguish between two aspects of integration. Integration of any specific system through the use of one or more (structural or managerial) integrative device, both implies the design of the system, as well as the assignment of a function for the system. The former is a static dimension of the system, whereas the latter refers to a dynamic dimension.

The important distinction between function and design does not apply only to organizational systems. It holds equally well for administrative and social systems for coordination and control. However, it is not the purpose of this study to analyze and describe this distinction. Leksell (1981) has done this for the management of ongoing headquarter-subsidiary relations. Integration of an acquired subsidiary aims both at designing systems for future relationships between the acquiring MNC and the newly acquired subsidiary, and at assigning functions for the systems. We shall now turn to the integration of administrative systems.

Administrative systems

The administrative systems operate within the framework of the organization structure. Administrative systems are characterized by a higher degree of flexibility than organizational systems, i.e. they can be more easily developed and changed. Here we shall focus on the budget and planning systems in the MNC and the financial reporting system. The extent to which these administrative subsystems were integrated is described in the article "Strategic Aspects of Post-Acquisition Management in MNCs". It was found that the integration of administrative systems did not vary to any substantial extent among the groups regarding the nature and structure of the integration process, i.e. design of the systems. Differences were found, however, in the relative importance assigned to the administrative systems as coordination and control mechanisms within each firm, i.e. the functioning of the systems.

Existing administrative systems in the acquiring MNC are used for managing integration. Administrative integration on the other hand aims at establishing or changing administrative subsystems in the acquired subsidiary, and between the acquired subsidiary and the acquiring MNC. This distinction will be further elaborated on below.

Integration into the international budget and planning system

Only minor differences were found between the five MNCs in the design of the budget and planning system. As a consequence, administrative integration in terms of establishing budget and planning routines in the acquired subsidiary did not differ between the groups. As noted earlier, however, the

functioning (i.e. how the systems were used) for control purposes did vary between the MNCs. In all MNCs the formal budget and planning systems were highly standardized. The research indicates that no differences exist between subsidiaries within the same group in terms of differentiation of design and functioning of the budget and planning system.

In the majority of cases, some form of budget and planning system existed in the subsidiary prior to the acquisition. Budgeting and planning routines were changed to correspond to those of the acquiring MNC. This only gives a static picture of the changes. A more comprehensive picture is given if the budget and goal-setting process, as imposed on the new entity, is analyzed. The budget and goal-setting process requires the use of more or less formalized communication channels. The implication as indicated by the research is thus that, although the establishment of budget and planning systems takes place rather early after the acquisition has been made, the actual use of the systems require more time before routines and channels are established and fully understood in the new subsidiary. The goal-setting process and the system for evaluation of subsidiary performance also need a substantial amount of time before implemented.

Integration of the financial reporting system

The financial reporting system consists of the formal and standardized reports, which primarily but not exclusively are generated from and based on the accounting system, and which are submitted by the foreign subsidiary to headquarters. The reporting system is the major channel of communication and information within a MNC (cf. Leksell, 1981).

All five MNCs have integrated the financial reporting system in the acquired subsidiary. To achieve total integration, two major tasks must be carried out. First, the finan-

cial reporting system must be fully imposed on the new entity. The acquiring MNC may choose to have the same reporting routines for all subsidiaries in the group in terms of frequency, magnitude and content of reporting, or differentiate reporting, i.e. to choose a varying degree of system standardization. The research indicates that variations in frequency and content existed on three of the five groups. Second, the accounting system of the acquired company has to be adjusted to fit with the format of financial reports. This implies formalizing and standardizing the international reporting documents on a corporate-wide or divisional basis as to layout, measurement principles and accounting definitions.

Social systems

Social control could be defined as the existence or creation of an organizational culture, norms and values, which guide the behavior of the organization and its members. The following subsystems for social control can be distinguished: (1) selection and recruitment policies, (2) transfer policies and mobility of subsidiary managers, (3) career and promotion of subsidiary managers, (4) compensation policies, (5) replacement of subsidiary managers, and (6) power and social interaction between headquarters and the subsidiaries.

Social integration of an acquired subsidiary is managed in conjunction with organizational and administrative integration. The need for social integration is thus a function both of the strategic and environmental context of the acquiring MNC, as well as the characteristics of the administrative and organizational systems for coordination and control. Integration of social systems is a complex process and takes a long time. This holds especially for the establishment of power and social interaction between the acquiring MNC and the acquired subsidiary. Some of the subsystems mentioned above, exist within the acquiring MNC, and could be adopted

by the new entity. Policies for selection and recruitment, transfer of managers, career and promotion of subsidiary managers, compensation, and replacement policies are all imposed on the acquired subsidiary. Ad-hoc solutions in all these areas are, however, common as a result of integration work. For example, changes in top management in the acquired subsidiary occurred in all acquisitions under study. Examples were also found, where special compensation arrangements were made for former managers/owners in the new entity. The MNCs also tend to use staffing as an instrument to exercise control of the new subsidiary. By appointing subsidiary managers who can be trusted and who understand the prevailing corporate culture (i.e. the values and norms in the acquiring MNC), indirect and personalized control reduces the need for standardized and formal control systems. As a consequence of this control philosophy, managers from the acquiring MNC are appointed to positions in the new unit shortly after the acquisition is made. The research indicates that the most common position for expatriates is as subsidiary president.

The distribution of power and the development of social interaction between headquarters and the new subsidiary partly determines the ability to control the new subsidiary. Variations between different subsidiaries were found within the same MNC. A large and strategically important subsidiary is likely to become more influential in the group than small and less important entities. Social integration also includes the establishment of intra-organizational relationships and interaction patterns, i.e. social processes through which organizational values and norms can be communicated so as to influence desired behavior.

Integration of social systems is not always carried out with the use of explicitly assigned integrative devices. Rather, social integration is usually a process which aims at the implicit evolution of social and power structures.

This holds especially for distribution of power and the development of social interaction between headquarters and the new subsidiary. This latter form of social integration is also more of an informal character.

The influence of the strategic and environmental context of the acquiring MNC on integration of coordination and control systems

It was earlier noted that the environmental and strategy of the MNC influence the need for coordination and control of its foreign subsidiaries. Hence, it can be argued that the environmental and strategic context of the acquiring MNC influences the integration of coordination and control systems. This was described in Figure 1 on page . We shall now turn to a discussion on how the contextual factors as identified by Leksell to influence the MNC's needs for coordination and control of its foreign operations, influence the integration of coordination and control systems. The major contextual factors are: (1) the size and magnitude of foreign operations in the MNC, (2) the product diversity and diversification strategies pursued, (3) the nature of the customer structure and competitive environment, (4) the nature of the technology employed and the manufacturing strategy, and (5) the degree of environmental uncertainty facing the firm. We shall also briefly analyze (6) the strategic and environmental context of the acquired subsidiary as they have been found to affect the integration process.

It is important to note the distinction between, on the one hand, how these factors influence the need for and mode of integration activities, and on the other, if they also influence the mode in a deterministic direct or unidimensional way. In line with the findings of Leksell, we shall conclude that the answer to the latter question is no. This

can be explained in two ways. First, no single contextual factor alone explains the need for and mode of coordination and control of the foreign subsidiaries, and hence not the integration of coordination and control systems. Second, as the relative influence of any contextual factor is likely to vary over time, it cannot be argued that any contextual factor has a higher relative influence on the integration of coordination and control systems in general. Rather, the strategic and environmental context should be regarded as an interacting whole, where the specific relations among the factors should be analyzed over time as to how they in combination affect both the integration process per se as well as the need for and mode of coordination and control.

The summary characteristics of the five MNCs investigated are described in Table 2 in the article "Strategic Aspects of Post-Acquisition Management in MNCs".

Size and magnitude of international operations in the MNC

The international experience of the MNC in general is not likely to have any major impact on the needs for coordination and control. It could be hypothesized, though, that experience would influence the mode of managing headquarter-subsidiary relationships. With increasing experience, it is likely that the MNC would increase the standardization of the instruments for coordination and control. With a higher degree of standardization of coordination and control, the integration process is likely to be conducted with the use of more standardized integrative devices. Also, with a higher degree of international experience follows a better acquaintancy with system design alternatives, which leads to a more easily acquired fit between the degree of system standardization and the needs for coordination and control in the MNC.

If international experience is gained through a strategy of acquiring foreign companies rather than through de novo establishments, this is likely to increase the efficiency in post-acquisition management. Efficiency in terms of the choice of integrative devices and the establishment of an integration plan will increase as a result of a learning process that takes place in the acquiring MNC. More sophisticated integrative devices can be used for the more complex integrative tasks, e.g. for social integration.

Product diversity and diversification strategy in the acquiring MNC

Product diversity and the diversification strategy pursued in the acquiring MNC has a profound impact on the need for coordination and control as well as on the mode for managing relationships with the foreign subsidiaries. Highly diversified MNCs are likely to have smaller corporate offices as well as fewer corporate staff functions, hence these MNCs could be hypothesized to have lower requirements regarding coordination and control. The functioning of the systems for coordination and control are likely to differ with different degree of diversification. Diversification strategy could also be assumed to affect the choice of performance criteria and the degree of involvement of corporate management in subsidiary affairs.

Regarding management of the integration process, the research indicates that in the highly diversified companies in the study, integration work was mainly carried out on the divisional level, whereas in the companies with a lower degree of diversification, responsibility for carrying out integration lay at corporate rather than divisional level. However, this situation is more related to operating integration rather than integration of coordination and control systems. We shall return to this under the section on operating integration below.

Industry structure, customers, and competitive environment

Several studies (cf. Leksell, 1981; Perrow, 1977; and Williamson, 1975) have shown that industry and customer structure as well as the competitive environment of the MNC affects the need for coordination and control in MNCs. With higher global competitive intensity and with a higher degree of customer concentration follow an increased need for decentralization of marketing responsibility to the subsidiaries. At the same time, however, an increased need for coordination and supervision of the marketing activities of the foreign subsidiaries arises. For integration this means that although local marketing flexibility must be kept high in those companies facing worldwide oligopolistic market structures, intense competitive rivalry and a high bargaining power of customers and hence prohibits too high a degree of operating integration, it demands a higher degree of integration of coordination and control systems so as to coordinate and guide the acquired unit in its new role as being part of a global group of companies facing global competition and customer structure.

Nature of technology and manufacturing strategy

The technology and manufacturing strategy of the MNCs influences the needs for coordination and control of its foreign subsidiaries with a high level of technology complexity and with a high potential for realization of economies of scale in production, follows higher requirements regarding both integration of operating as well as coordination and control systems.

It could be expected that MNCs operating under unstable technological conditions to rely more on social control systems than on organizational and administrative systems for coordination and control. Hence, a longer period of time is required before integration of control systems is fully achieved in these cases.

Higher requirements for control of subsidiary operations also exist, where a high degree of interdependence in production exists between units in the acquiring MNC. It could either be between the acquiring parent and its new subsidiary or between the new entity and other, already existing subsidiaries in the group. Using Thompson's (1967) classification scheme, these forms of interdependence are either of a reciprocal or of a sequential nature. Companies with less complex interdependence (pooled interdependence) do not require as high degree of coordination and control as the former ones.

The impact of interdependence in production is even more accentuated for operating integration. But control of, among other things, semi-finished goods deliveries, production capacity, and order back-log, becomes important if interdependencies do exist. A detailed description of interdependencies in production between parent company, sister subsidiaries and the new entity, is given in the article "Strategic Aspects of Foreign Acquisitions" (pp. 71-78).

Degree of environmental uncertainty

The degree of perceived environmental uncertainty affects the need for coordination and control. Also, differences in the design and functioning of the control systems in MNCs can be explained by differences in environmental uncertainty.

Earlier research (cf. Burns and Stalker, 1961; Lawrence and Lorsch, 1969; Galbraith, 1973, among others) has shown that the environmental uncertainty facing MNCs forces the organization to adopt more flexible and adaptive organizational structures, and also to rely less on hierarchical control, rules and procedures. The MNC under these conditions chose to adopt a more decentralized and flexible structure.

No attempt was made in the research to measure environmental uncertainty for the five MNCs under study. It could be hypothesized though that a high degree of uncertainty will lead the MNC to adopt more elaborate and complex mechanisms for coordination and control, and hence, the complexity of the integration process is likely to increase with increasing degree of uncertainty. A high degree of environmental uncertainty is also likely to induce a choice of more complex and sophisticated integrative devices.

Strategic and environmental context of the acquired subsidiary

The strategic and environmental context of the acquired subsidiary is likely to influence the mode of managing the integration process. However, one cannot conclude that subsidiary specific factors influence the mode of coordination and control of foreign subsidiaries in the acquiring MNC.

The research indicates that there are two factors related to the context of the acquired subsidiary that influence the mode of integrating the new entity. First, the size of the subsidiary seems to have an impact on the integrating process in terms of the amount of integrative effort devoted to the integration process. Second, the degree to which systems for coordination and control in the subsidiary already exist, and how the systems are designed and function also have an impact on the integration of the systems into those of the acquiring MNC. In those cases, where the acquired unit previously was a division or a subsidiary of another company, organizational and administrative subsystems for coordination and control already existed. Hence, the new parent/owner changed already ex-

isting routines and added new routines only to the extent that these did not previously existed.

The acquired unit in these cases is accustomed to the existence of interorganizational control systems. Where the new unit was an independent unit prior to the acquisition, the acquiring MNC had to establish new routines and systems for interorganizational control. This is likely to require a substantial learning process in the new unit, i.e. to accomodate to a non-independent existence. Resistance (of emotional character) could be hypothesized to increase in the latter case.

To summarize, the size and the former ownership status of the new unit are likely to affect the mode of managing integration of coordination and control systems.

The influence of the strategic nature of the acquisition on integration of operating systems

In the previous section, it was described how the environment and strategy of the acquiring MNC may influence the need for integration of coordination and control systems. In this section we shall summarize how the strategic nature of the acquisition may influence the integration of operating systems.

The concept strategic nature of an acquisition refers to the degree of relatedness of the new subsidiary to the business of the acquiring MNC. Two major classes of relatedness were used in the study. Related acquisitions, on the one hand, either imply the entry into new business areas, where the acquiring company uses its existing functional skills and resources (supplementary related acquisitions), or by acquiring functional skills and resources to the company's existing competence without altering the existing product-market focus of the company (compelemen-

tary related acquisitions). Unrelated acquisitions, on the other hand, involve the entry into new business areas than those existing in the company.

In the case of related acquisitions, the operating benefits have the greatest potential for improvement of performance. Related acquisitions by definition also require more substantial operating integration in order to materialize potential coordination benefits in various operating subsystems, e.g. manufacturing, R&D, marketing, etc.

The strategic nature of the acquisition is an outcome of corporate strategy pursued by the MNC. Corporate strategy is derived from the strategic and environmental context of the company. Hence, it can be argued that operating integration also is influenced by the same contextual factors that were described in the previous section, and said to influence the need for coordination and control of the acquired subsidiary. Diversification strategy, for example, is obviously directly related to acquisition strategy. But also interdependencies in production and marketing form part of the acquisition strategy pursued by the MNC.

To conclude, the nature and mode of operating integration is related to the strategic nature of the acquisition, which in its turn is derived from the strategic and environmental context of the acquiring MNC. It is important to note, however, that no single factor, nor the context of the acquiring as a whole, can fully explain the nature and mode of integration.

As pointed out by Leksell, the influence of the context is not unidimensional. Rather it is the interrelationships that exist between the systems that seem to determine the need for and mode of integration. The extent to which an internal balance between the systems is achieved will thus

affect the efficiency of the management of the integration process. In the final section, this hypothesis will be further elaborated on.

Efficiency of post-acquisition management

We have seen that the various forms of integration are related to one another. Integration is influenced by the strategic and environmental context of the acquiring MNC, and to some extent also by the strategic and environmental context of the acquired subsidiary. Integration is also influenced by the strategic nature of the acquisition. This in its turn being influenced by the strategic and environmental context of the MNC. In order to discuss efficiency of post-acquisition management, some criteria by which to measure efficiency have to be put forth. The following three efficiency criteria may be established, based on the previous analysis. Efficiency of post-acquisition management depends on:

1. The extent to which integration of coordination and control systems results in an internal consistency between the systems in the total configuration (internal consistency).

2. The extent to which integration of coordination and control systems succeeds to meet the coordination and control requirements as imposed by the strategic and environmental context of the MNC (external consistency).

3. The extent to which the integration of operating systems succeeds in achieving potential coordination benefits ("synergistic effects") between the acquiring MNC and the acquired subsidiary.

The three sets of criteria will now be commented upon separately.

Internal consistency

Interrelationships exist among the design and functioning of various coordination and control systems. Integration of one single coordination and control subsystem cannot be made without taking into regard changes in the design and functioning of other subsystems. Instead, the integration of the subsystem must be related to the design and functioning of other subsystems, as well as the design and functioning of the total systems configuration. Hence, integration of coordination and control systems must be carried out with regard taken to the configuration of all systems, i.e. internal consistency of the configuration must be achieved in order for the integration to be efficient. Inefficiency refers to internal inconsistency, i.e. where different systems and subsystems do not complement or substitute for others. It is not possible to determine from the research the exact dynamic nature of the interrelationships between the systems. However, it can be concluded that it is meaningless to focus on one single system for coordination and control.

It is also important to distinguish between design and functioning of the systems. As noted earlier, the former is a static dimension of the system, whereas the latter refers to a dynamic dimension. Some subsystems of a more formal character are possible to design using more formalized integrative devices (e.g. organizational structure, the board of directors in the subsidiary, standardization of policies and procedures, budget and planning systems, financial reporting systems, compensation policies, etc.). Others, of an informal nature, like informal communication flows, distribution of power and the development of social interaction between headquarters and the new subsidiary, are not integrated with the use of explicitly assigned integrative devices. Rather, the design of these systems

tend to develop over time. The time dimension of the integration process thus constitutes a fundamental determinant of efficiency. Regarding the functioning of the systems, the time dimension of integration becomes even more accentuated. As described in the previous section, the functioning of the various subsystems often requires a substantial learning process in the acquired entity. This holds both for formal and informal subsystems for coordination and control.

It does not imply, however, that efficiency in integration is more easily achieved by only establishing formal systems. Rather, in order to achieve an internal consistency in total configuration and at the same time keeping the organization flexible to adapt to changes in the requirements for control, a balance between formal and informal systems ought to be established. The total configuration ought thus to be designed to permit strategic and operative flexibility. Integration of coordination and control systems should be adopted to such a design.

External consistency

Equally important as the establishment of an internal balance or consistency within the total configuration is the degree of external consistency between the total configuration of coordination and control systems and the environmental and strategic requirements of the firm. If integration fails to establish a fit between requirements and the design and functioning of the system as well as the sum of them, external inconsistency will arise. It should be remembered though, as was earlier noted, that the contextual influence, i.e. requirements of the context is not unidimensional and that no single contextual factor determines the requirements on total configuration. It could be expected that external consistency would nega-

tively affect performance, and thus imply inefficiencies in post-acquisition management. Inconsistency that arise as a result of inefficient integration could be hypothesized to reduce the future capability of the acquiring MNC to reorient the strategy and structure of the acquired subsidiary when facing environmental changes and new requirements for coordination and control.

Efficiency of operating integration

Operating systems are integrated to achieve various forms of coordination benefits between the operations of the acquired subsidiary and the rest of the acquired group. Efficiency of operating integration is thus determined by the extent to which potential benefits are actually achieved. Coordination benefits may be of an operating character (i.e. the creation of links among the acquiring MNC and the acquired subsidiary either in terms of actual market and/or technical interdependence or in terms of the cross-pollination of marketing and/or technical skills), or of a financial character (i.e. the enhanced ability to obtain external funding and capacity to deploy capital internally in a more efficient way).

The character of potential coordination benefits differs with different strategic nature of the acquisition. In the case of related acquisitions, the operating benefits have the greatest potential for improvement of performance. The less related the acquisition is, the more the nature of the potential benefits change. Thus, efficiency of post-acquisition management is dependent on the extent to which the mode of operating integration is consistent with the requirements as imposed by the specific strategic nature of the acquisition.

SUMMARY

In this concluding chapter, we first analyzed reasons for acquisition failures. They were said to be:

- Wrong assessment of acquisition candidate
- Lack of a clear acquisition policy
- Time and managerial capacity restraints
- Lack of an integration plan and no continuity of integration work
- Failure to recognize key people ("the house of cards effect")
- The efficiency of post-acquisition management.

The first two factors refer to the pre-acquisition phase. The third factor could be referred both to pre- as well as post-acquisition management. The last three factors are all derived from the post-acquisition phase. Efficiency of post-acquisition management was said to be determined by three factors of major importance:

- The extent to which integration of coordination and control systems results in an internal consistency between the systems in the total systems configuration.
- The extent to which integration of coordination and control systems succeeds to meet the coordination and control requirements as imposed by the strategic and environmental context of the acquiring MNC; external consistency.
- The extent to which integration of operating systems succeeds in achieving potential coordination benefits between the acquiring MNC and the acquired subsidiary.

The major objective of post-acquisition management thus becomes three-fold. First, to design and implement co-ordination and control systems, which are internally consistent and at the same time correspond to the environmental requirements and strategic objectives of the MNC and its acquired subsidiary. Second, to achieve potential benefits from integrating the operating systems of the acquired unit so as to fit with those of the rest of the group. Cross-fertilizing in functional areas such as production, marketing, R&D and finance should be obtained, so as to maximize overall group performance. Third, the choice and use of devices to carry out the integration program, must fit with the specific requirements of the post-acquisition objectives. It was argued that an optimal structure of integrative effort and complexity of integrative devices would exist for each acquisition. If these objectives are fulfilled, efficiency of post-acquisition management can be obtained.

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