The role of relationships in post-acquisition integration:
A case from the Italian mechanical industry

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It is well known that mergers and acquisitions (M&A) have a high failure rate and the search for many drivers for M&A success is of great interest both for scholars and for practitioners. Post-acquisition integration undoubtedly represents the most critical phase for the success of a merger or acquisition. However the analysis of the role of business relationships – between the two firms and among the two firms and other actors - on post-acquisition integration has been very limited. Thus this paper has the objective to explore post-integration processes taking into account both internal factors – examined in depth in the literature- and relational factors. Specifically, the paper examines the case of a large Italian company active in the mechanical sector whose growth has been based on various correlated acquisitions. The analysis is based on three cases of acquisitions concerning Italian industrial cluster companies smaller in size and operating in the same sector. The research is currently undergoing and this paper shows preliminary empirical results. The preliminary assessment of the outcomes of the acquisition processes highlights the role of strategic convergence, technological complementarity and differences in organizational culture and procedures. Moreover, the empirical research place emphasis on the value of previous business relationships as main drivers of the effective post-acquisition integration.

Keywords: acquisition process, post-acquisition integration, business relationships, mechanical sector.

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INTRODUCTION

It is well known that mergers and acquisitions (M&A) have high failure rate and the search for many drivers for M&A success is of great interest both for scholars and for practitioners (Capron, 1999; Wittman, 2009; Duncan, Mtar, 2006; Epstein, 2005). Literature has largely examined the main determinants leading to an acquisition process (Walter, Barney, 1990; Vermeulen, 2005), the steps by which the acquisition develops (Brown, Langford, 2005), the great problems stemming from post-acquisition integration (Haspeslagh, Jemison, 1991; Pablo, 1994; Pablo, Javidan, 2002; Quah, Young, 2005).

As concerns the latter point, the post-acquisition integration undoubtedly represents the most critical phase for the success of a merger or acquisition (Mace, Montgomery, 1962; Angwin, 2004). During the post-acquisition phase the expected process of value creation encounters strategic, organizational and cultural obstacles and unexpected and unplanned events, generating negative results. Scholars have thus stressed the need for taking a process view, rather than a planned and sequential approach to the management of the post-acquisition integration (Haspeslagh, Jemison, 1991). Acquisitions , in fact, entail a set of processes by which the parties’ activities and resources are to be combined and integrated and such processes tend to be highly complex (Hakansson, Snehota, 1995). Facing the post-acquisition integration from a process view helps to focalize and understand the real elements that affect the effectiveness of the integration and the main elements which a company can leverage on in order to handle the integration positively.

Within such debate the analysis of the role of business relationships – between the two firms and among the two firms and other actors - on post-acquisition integration has been very limited. Thus this paper has the objective to explore post-integration processes taking into account both internal factors – examined in depth in the literature- and relational factors.

The research methodology follows the case-study analysis based on a longitudinal and processual approach, which is deemed appropriate to examine change over time in specific variables and their impact (Pettigrew, 1997). A deep single case-study is chosen to explore in more detail the issue under investigation and point out relevant patterns and factors. The paper examines the case of a large Italian company active in the mechanical sector whose growth has been based on various correlated acquisitions. Specifically, the analysis is based on three cases of acquisitions concerning Italian industrial cluster companies smaller in size and operating in the same sector. The research is currently undergoing and this paper shows preliminary empirical results.

The motivations to conduct this study are twofold. Firstly, as mentioned before the existing literature on M&A has not taken much into account the impact of business relationships on post-acquisition integration processes. Therefore this paper aims to assess the impact of both internal factors – such as organizational culture, technological competences – and relational factors. Secondly, this work aims to point out useful managerial lessons to support processes of growth by mergers and acquisitions. Specifically, the paper reports on a process involving one large firm and three mid-size and small companies. Literature on M&A put into light the highest difficulties that the acquisition process between such two types of companies encounters (Kusewitt, 1985; Kitching, 1967). In times when in European countries, as Italy, a great need exists for an increase of the size of the companies representing the country’s industrial base, this case-study highlights relevant determinants and processes shaping acquisition-led growth paths.
The second paragraph reports on the theoretical background of post-acquisition integration. The third paragraph outlines the main research objectives and the chosen methodology. The fourth section develops the case-study examining the evolution of the three acquisition processes undertaken by the focal company. The fourth paragraph discusses the main empirical results and the final section draws preliminary final remarks.

**POST-ACQUISITION INTEGRATION**

The post-acquisition integration phase has been analyzed by different points of view. Some scholars have stressed the different steps it develops or should develop and thus they have studied the process of planning of the integration (Bannert, Tschirkey, 2004). Some contributions on this topic have distinguished sequential steps that concern first the procedural integration, secondly the integration of the physical resources and thirdly the cultural integration (Chatteryee et al. 1992).

Other scholars have analyzed the different levels of integration that can be implemented between two companies after an acquisition and the factors affecting them. In this respect, Haspeslagh and Jemison (1991) distinguish different models of integration, depending the need for organizational autonomy and strategic interdependence between the two companies. Some other scholars have focalized on the main problems occurring in the post acquisition integration phase and have given suggestions on the tools to face the main burdens. Looking at the problems rather than to the design of the acquisition has lead researchers to recognize that an acquisition fails if the process of necessary integration is not value creating. This mainly occurs because of the lack of synergies due to problems in the sharing and in the synergic connection of resources, capabilities and practices (Epstein, 2004).

Lack of synergies and main post-acquisition integration problems mainly refer to strategy convergence, organizational and cultural issues, operational aspects, management of market relationships. On the strategic dimension lack of fit and differences in the strategic intent represent an obstacle to the successful sharing and exchanging of critical skills and resources (Pablo, Javidan, 2002). This is often due to an excess of determinism, that is the rigid focus of the main actors of the acquisition on the original reasons of the acquisition that have changed over time (Haspeslagh, Jemison, 1991).

On the organizational side absence of organizational fit, that is differences in management style and in organizational systems (firstly reward and evaluation systems), in the decision-making approach, communication patterns and administrative systems make difficult and costly knowledge sharing, communication, flexibility, speed and willingness to change and develop (Bannert, Tschirsky, 2004; Datta, 1991). Moreover, cultural differences have an high impact on employees, creating resistance, antagonism, distrust, tensions and hostility (Quah, Young, 2005), as well as obstacles to knowledge sharing and transparency.

Post-integration could be complex also within operational activities. Difficulties in rationalizing and integrating IT systems and in standardizing support functions and procedures, because of differences and limited compatibility in technological infrastructures and operating processes could reduce efficiency and effectiveness performance (Hitt et al., 2009).

Post-integration effort is not limited to internal processes. Market relationships could be highly affected both in downstream and upstream activities. The strong propensity on integrating operational processes and product lines and on cost cutting rather than on serving customers makes the companies distant from the market and causes high dissatisfaction among customers (Burgelman, McKinney, 2006). Moreover, problems in sales integration
due to conflicts between the companies’ sales forces, differences in products and prices enhance customers’ confusion and dissatisfaction (Epstein, 2005). Similarly, on the supply side, suppliers duplication and conflicts make the management of purchasing activities difficult and costly (Anderson et al., 2001; Bocconcelli et al., 2006). Scholars recognize that a value creating integration is not only a question of transfer of resources, capabilities and organizational practices but above all it is a question of their combination by continuous interactions and mutual adaptation processes between the two interacting companies (Bocconcelli et al., 2006; Wittman et al., 2009). This means that the process of integration takes time in order to favor the sharing of procedures, structures and activities, as well as the capability to exchange and share resources, knowledge and skills. This especially occurs in correlated acquisitions (Rumelt, 1982).

That contrasts with the diffused thesis that the length of the post-acquisition integration process has negative effects because it creates indirect financial repercussions such as postponed business strategy implementation, diminished employee morale and workforce and customer defections (Chammugam et al., 2009). So there is the need for accelerating the process of integration and some authors suggest temporary managers or teams to accompany procedural and structural integration and to set the basis for cross-cultural fertilization (Ashkenan, Francis, 2000). Others suggest the introduction of different forms of communication such as frequent meetings, visits and the creation of teamwork (Gamara, Renjen, 2004). The integration process might also be facilitated by the degree of experience and knowledge detained by the acquirer firm in acquisition projects implemented over time (Zollo, Singh, 2004). The role of knowledge in facilitating acquisitions is further highlighted by those few contributions placing emphasis on the role of previous relationships developed between the acquirer and the target firm (Porrini, 2004).

In summary, it is important to observe that all the studies that have adopted a process approach and have focalized on the post-acquisition integration as a value creating process have also recognized that it takes time and that integration cannot be handled as a planned and forecasting activity, being the outcome of continuous adaptation processes.

**RESEARCH OBJECTIVES AND METHODOLOGY**

The paper aims to explore post acquisition integration processes taking into account both internal factors and relational factors. Specifically, the research questions are the following:

- Which are the main post-acquisitions patterns in terms of integration performance between the acquirer and the acquired companies?
- Which variables – in terms of internal and relational factors – shape the post-acquisition integration process?

We apply the case study methodology to the analysis of M&A and post-merger integration as case studies help to enter in detail into processes. We agree upon with those scholars that underline that detailed processes cannot be obtained in a large scale field study, thus adopting the case study methodology in researches on M&A (Quah, Young, 2005). The research methodology follows the longitudinal and processual approach, which is deemed appropriate to point out change over time in specific variables and their impact (Pettigrew, 1997).

The focal firm under investigation is Alpha, a mid-sized company based in the centre of Italy and located in a mechanical industrial cluster. Specifically, the analysis focuses on three acquisitions concerning Italian small and medium size companies active in the wood-working machinery sector. The collection of data is based on nine semi-structured interviews with managers from Alpha and the acquired companies over the 2005-2011 period.
Alpha has been established more than 80 years ago and reached a level of Euro 301 millions turnover in 2009. The company is currently active in various sectors. Over time the firm has changed its organizational structure to adapt to its main markets, developing a divisional organization. The Finishing Division, established in 1960, is in charge of managing finishing-related activities and is currently the market leader in wood-finishing complete production lines. In addition to wood-related applications the company is very active also in the plastic and glass sectors for finishing activities. The Finishing Division supplies with its process technology large and international customers. The current profile of the Finishing Division is the outcome of a number of acquisitions of complementary and technologically advanced companies. During the ’90s Alpha acquired Beta, a mechanical firm located in the centre of Italy and engaged in finishing activities for windows. In the mid of 2000s Alpha acquired Gamma, a company controlling well-known brands and producing sanding machines and finishing lines for picture frames, profiles for furniture, doors and windows. In the second half of 2000s Alpha acquired Delta, a company based in the centre of Italy and engaged in wood finishing technologies.

THE EMPIRICAL ANALYSIS

This paragraph analyzes the evolution of the main Alpha acquisition processes: Beta, Gamma and Delta. For each acquired company both the acquisition process and the post-acquisition phases are examined.

The acquisition process of Beta

In the mid of the 1990s Alpha acquires Beta, a company based in the centre of Italy. The main goal for Alpha is to complete the product range to be offered in the market. However, the products of the two companies are very similar and this causes immediately increasing conflict among Alpha and the former owners still in charge of running the plant in Beta. The main divergence concerns the relationships with the sales network which is responsible for launching both Alpha and Beta branded technologies. These difficulties cause the former owners to leave the company and this represents a major change in the small mechanical firm. In the following years Alpha keeps controlling Beta operations through the effort of a Alpha manager acting on a part-time basis. His main task is to coordinate all production and financial aspects. In this period Alpha does not implement specific projects to upgrade organizational processes and further integrate internally Beta.

In 2009 the Finishing Division is facing a major decrease in demand in international markets. Therefore pursuing higher efficiency becomes necessary to be competitive. One of the main projects to address this strategic goal is the merger of Alpha and Delta – another company acquired by Cefla and examined below - and the transfer of all production activities in Delta plant. This project starts in early 2010 and is still undergoing. The management of the integration of production activities is undertaken mainly by Delta managers, with the contribution of a Alpha manager during the first year of the project. In the initial phase various difficulties arise. Beta and Delta personnel display different organizational cultures in terms of propensity to innovate and compliance with standard performances. Under a technical dimension Beta design personnel is not use to Delta project management techniques. After one year and a half cultural convergence increases and technical integration is pursued effectively mixing technical teams in charge of both Delta and Beta products.
The acquisition process of Gamma

Gamma is a mechanical firm established in 1976 producing sanding machines and finishing lines for picture frames, profiles for furniture, doors and windows. The company is managed and controlled by the founder, who has a deep knowledge of the product. Gamma experiences growth in international markets acquiring two mechanical companies in Germany and setting up a subsidiary in United States. In 2005 the entrepreneur accepts to sell the company –comprising four plants in Italy, Germany (two) and United States - to Alpha, which aims to gain control of highly innovative complementary technologies in the finishing sector. The entrepreneur does not continue his activity inside the company and leaves his position as responsible for technological development. Then Alpha introduces his managers in the key positions in the product development and production areas, pursuing the transfer of Alpha’s organizational processes. This attempt is not welcomed by Gamma personnel and a few key members of the staff leave the company because of lack of trust towards the new management. The scenario is different in the two plants in Germany, where the former local owners are still involved in the management of production activities; in these units Alpha does not actively engage in changing organizational and production processes.

In the most recent years Gamma loses competitiveness and faces very difficult market conditions. Its critical situation is further widened by the strong image and reputation of the company in the local industrial setting; thus local institutions are actively engaged in monitoring the evolution of Gamma requesting Alpha to intervene to protect the company and its employees. However, the impact of the economic crisis in 2010 pushes Alpha to close the Gamma plant in Northern Italy and plan the transfer of production lines in its plant.

The acquisition process of Delta

The wood-working market in the ‘80s is characterized by increasing competition. Foreign customers require high technological level and product quality and are more eager on levels of service and costs. Therefore competing in European markets becomes a compelling task for Alpha. A pivotal initiative is the partnership with Delta, a company based in the centre of Italy and active in the wood-working sector and offering complementary products to the same market segments. Alpha and Delta establish a sales agreement for the expansion in foreign markets and start to cooperate in R&D activities creating a joint-lab, whose goal is to develop and test innovative solutions for the product offering. The partnership with Delta leads Alpha to horizontally expand its offering and to offer a complete range of high quality products for wood-finishing.

In the early ‘90s Alpha widens its sales network and this allows both Alpha and Delta to gain access to potential customers also outside Europe, mainly in South-America, Eastern Europe and Asia. The acknowledgement of the tight product complementarity the sales connections and the financial stability lead the two companies to formlize the business cooperation through an equity operation: in 1994 Delta accepts to sell 20% of its shares to Alpha in order to ratify and consolidate the growing partnership in sales and R&D activities. The international economic development and the global growth of the furniture sector in the ‘90s, together with increased competition in both advanced and emerging markets, represent difficult challenges for Alpha and Delta in the ‘90s. Both companies are fully aware that complementarity in the product offering is the main distinctive feature of their relationship. In the new market scenario both partners pursue two additional goals: higher effectiveness in
international sales activities and cost reduction. Over the ‘90s Alpha and Delta follow a gradual growth in their traditional markets and at the beginning of the years 2000 they start to jointly penetrate new markets outside Europe (North-America, Singapore, China). This period is characterized by a greater integration of Delta’s customer relationships activities within Alpha subsidiaries and a greater joint service to their customers.

Around the year 2003 Alpha and Delta face difficult market conditions, caused by the strengthening of the Euro compared to the US dollar. Within this market scenario since 2005 Alpha and Delta aim to strengthen the international sales network covering each country with wholly owned subsidiaries or exclusive agents. In addition to sales initiatives, marketing activities are gradually developed jointly between the two companies. The central marketing unit in Alpha is a point of reference for Delta’s marketing activities. Such unit is in charge of developing marketing initiatives for the whole finishing offering, in terms of market analysis, communication/promotion campaigns and trade fairs participation. Moreover, the marketing unit in Alpha implements customer portfolio and customer satisfaction analyses.

As shown above, the two partners place high strong relevance on pursuing cost reduction targets. Sorbini and Cefla plan joint production investments in emerging markets that make possible a cost reduction and also allow a greater penetration of such markets. In 2002 the two companies acquire IGM, a Brazilian producer of wood-working machinery, while in the following years market monitoring is started in China in order to set up a production unit in this strategic market.

The increasing integration in international sales activities between Alpha and Delta is accompanied by two main changes in the equity ownership of Delta. In 2006 Alpha’s share of the company shifts from 20% to 40%, leading then to the majority ownership of 60% in 2007. This is a natural consequence of the growing integration between the two companies, as highlighted by the words of Delta Sales General Manager: “the acquisition was the natural point of arrival of a history and the ratification of a situation and of a change that was already into existence”. Therefore Delta formally becomes an internal unit of Alpha.

After the acquisition Alpha pursued higher integration in sales activities through the implementation of a new organizational configuration. The current organization of the Sales Departments in Alpha Finishing Division is based on the development of foreign markets penetration through the activities of three International Sales Managers in charge of different geographical markets (Europe - Middle East, India and Russia – North and South America, East Asia and Eastern Europe). The manager in charge of North and South America, East Asia and Eastern Europe is the former Sales general manager in Delta. In the new position this manager is able to further transfer his tacit knowledge and networking and market contacts in Alpha; moreover his effectiveness is further supported by his previous deep knowledge of Alpha internal sales organization and processes. Such shift further promotes the integration of Delta sales approach and culture with CEFLA organizational routines and practices: while in Delta historically high emphasis has been placed on flexibility in customer response and ability in fostering interpersonal relations supporting the business relationship, in Alpha great relevance has been played by interacting with the customer in a planned and organized way.

Within the new configuration of the sales organization changes have been implemented also within Delta. Currently two Product Managers directly support the initiatives of the International Sales staff. Thus more emphasis is placed on the technical competences rather than on the sales skills, in the light of the increasing shift of responsibilities towards Alpha Sales Department.
In the most recent period Alpha launched other initiatives to further increase integration with Delta operational activities. As mentioned before, Delta is actively involved in a merger of production activities with Beta. This project has been implemented by Alpha in agreement with the family in charge of managing Delta while maintaining a minority share in the company. Delta has been largely autonomous in managing this merger process and attempted to implement changes in the organizational culture in Beta, pursuing higher efficiency and effectiveness in order to comply with Alpha and Delta standard performances. After pursuing integration in sales and production Alpha launched the plan to achieve common information systems platform in Delta, in order to make information flows more effective between Alpha and Delta. This project is undergoing and faces some complexities and difficulties, in the light of the strong propensity by Delta management and personnel to behave in a flexible way and to communicate mainly through informal mechanisms.

**DISCUSSION OF RESULTS**

Preliminary empirical analysis shows that the three company acquisitions by Alpha under examination show different patterns and outcomes in the acquisition processes. First of all, ex-post analysis shows that only the Delta case could be assessed as a successful one. The company today is actively involved in Alpha activities, has managed to face the difficult markets conditions shaped by the economic crisis and is displaying financial performances in line with Alpha targets. Instead the integration of Beta and Gamma has been shaped by difficulties and problems influencing – in different ways – their role within Alpha. Beta did not achieve high operational performances and therefore has been merged with Delta losing its identity as autonomous company and production unit. Gamma – a company detaining distinctive technological competences and strong brands its niche market – has suffered the closing of its plant in Italy, while keeping active its production units in Germany and United States. A preliminary assessment over the main variables affecting these acquisition processes highlights a few factors. Firstly, convergence in the strategic dimension - as argued in the management literature - contributes to a successful acquisition process. In the case of Beta conflict over product and sales policies pushed to former owners to leave the company, while in the case of Delta Alpha and the family running the company over time have agreed over the main policies to be undertaken. The interaction between Alpha and Delta has been intense over time dealing with opening of new markets and setting up joint sales and technical projects. A related issue need to be underscored, in the light of the small firm/entrepreneurial/industrial cluster nature of all the three acquired companies: in all the three cases the behavior of the previous owners has strongly influenced the evolution of the acquisition process. Secondly, the acquisition processes seem to be shaped by the technological resources detained by the acquired companies and by the degree of complementarity with Alpha technological base. This is shown effectively by Delta ability to play a major role as technological partner during the alliance period and as technological contributor after the acquisition. Delta technical staff has been involved in joint teams dealing with customers located in Italy and abroad. Delta managed to keep its position pursuing innovation in its product offering and in the application of its technologies. Thirdly, as highlighted in the literature, post-acquisition integration processes seem to be influenced by differences in terms of organizational culture and procedures. All the three companies developed over time flexible and informal operational routines which could enter
into conflict with Alpha standard and planned organizational mechanisms and procedures. In the Gamma case such differences have emerged in a more explicit way, while in the case of Delta the integration has been more incremental allowing for a combination of flexible and planned approaches. A major role in such gradual integration has been played by Delta sales general manager, who acted as a liaison in sales activities during the partnership and then took a senior position in Alpha international sales offices after the acquisition.

An overall preliminary assessment of the three acquisition cases highlights a further relevant aspect. According to preliminary data Alpha and Delta developed an increasingly intense partnership in terms of product range and sales activities lasting almost twenty years leading then to the acquisition by Alpha, while Beta and Gamma did not experience the same cooperative pattern. Therefore comparing the three cases of acquisitions and their integration performances suggests that the previous relationship between Alpha and Beta could have played a relevant role in facilitating the post-integration phase, in addition to the complementarity in terms of strategic intent and technological bases. The evolution of Alpha-Delta partnership has been incremental, highly interactive and characterized by mutual adaptation in terms of product range and sales activities. Such pattern has generated a process of mutual learning and trust, which has been supported by the continuity in the top management positions of the family members and a few managers closely linked to the family. Therefore the acquisition has been perceived as a natural process and the post-integration phase has been facilitated by the high integration levels developed during the partnership period. The main difficulties seem to have concerned only operational issues – as the introduction of a common information system platform.

PRELIMINARY FINAL REMARKS

This paper provides preliminary empirical evidence about post-acquisition integration processes and on the relevant factors shaping them. The research design is based on the analysis of three acquisition processes undertaken by an Italian large firm, which is leader in the global wood-working machinery sector. Preliminary data show that in two cases post-integration activities have faced strong difficulties leading to the closing of production activities of the acquired companies, while in one case the acquired company still plays a relevant role in terms of technology development and production activities.

The preliminary assessment of the outcomes of the acquisition processes highlights the role of variables highlighted in the literature as strategic convergence, technological complementarity and differences in organizational culture and procedures. Moreover, the empirical research place emphasis on the value of previous business relationships as main drivers of the effective post-acquisition integration between the two companies. In the case of Delta, its long term business alliance with Alpha evolved through continuous exchanges and mutual adaptation processes. These have lead to companies’ greater interdependence and integration almost independently from the formalization of an acquisition process and the sub-sequent need for companies’ integration.

Under a theoretical dimension, these preliminary empirical results highlight the relevance of IMP theories and concepts to investigate post-acquisition integration processes and performances taking into account also the relationships where firms are involved. A value creating integration takes time and it is the result of efficient and effective combination of resources and activities by continuous interactions and mutual adaptation processes between the two interacting companies (Ford et al., 2003; Alter, Hage, 1993). Adaptation processes are the result of continuous exchanges and interactions between companies (Hallen et al.
Interaction is both interpersonal communication and continuous exchange of knowledge and it has a physical form. In fact actors interact through the delivery of physical products and services, information, payments (Ford, Hakansson, 2006). Interactions have thus technical, social, knowledge and economic contents. Interactions generate interdependencies because of the links of the activities of the two companies, the ties between their resources and the bonds between their actors (Hakansson, Snehota, 1995). Therefore it could be argued that a successful acquisition is not only the result of the existence of complementary resources in the companies but it depends on their combination, which is not of the simple transfer, of activities and resources (Wittman et al., 2009).

Under a managerial point of view, the paper highlights two related aspects. Firstly, speed in managing acquisitions is not always the best option. The goal should not be “speed” but “value creation”, which within an acquisition process requires time (Channugam et al., 2005). Secondly, the results of the paper provide insights to those mid-large companies that have grown up by the development of tight business relationships with other companies. When firm size becomes more important this qualitative growth may be transformed in acquisition processes that might experience more limited difficulties in value creation integration activities, in the light of mutual adaptation and trust develop over time. Our study thus aims to provide a lesson useful to support processes of growth by mergers and acquisitions directing its attention to the value of inter-organizational relationship processes as main drivers of successful integration.

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