The M&A Phenomenon:

There has been a boom in cross-border mergers and acquisitions (M&A) activity during the last decade. According to KPMG Corporate Finance’s Dealwatch 1999, the total value of cross-border transactions has been multiplied by four from $196.4 billion in 1994 to $798 billion in 1999. Cross-border takeovers are the largest component of Foreign Direct Investment (FDI) in the United States and an increasingly large component of total U.S. acquisitions. European companies do more cross-border than domestic activity, with more than half of total cross-border volume targeted at Non-European community countries.

The term “merger” is generally referred to the “merger of equals”, and “acquisition” is mostly explained as a situation when the top management team of the acquiring company takes over the acquired firm.

Nonetheless, the vast experience gathered in the M&A realm, unequivocally indicates that even when a merger is announced to be “the merger of equals” after a few days or at most weeks, it becomes clear to all who exactly dominates the scene in the new amalgamated firm and who plays the secondary role.

Therefore from now on there will be no distinction between “merger” and “acquisition” terms, and they will be used interchangeably.

The Post - Acquisition Integration Concept:

One of the most crucial issues in the M&A implementation process is to determine the overall post – acquisition integration approach with regard to the degree of autonomy provided by the acquiring company to the management of the acquired firm.

Surprisingly, very little literature directly defines integration. Although most authors acknowledge that integration involves some forms of combining the assets and people of the buyer and the target, in general, the term is used quite loosely.

Considering the existing post-acquisition integration literature, the seminal work of Haspeslagh & Jemison (1991) is among the most prominent ones.

Haspeslagh & Jemison (1991) adopt a process perspective in analyzing acquisitions that shifts the focus from an acquisition's results to the drivers that cause the results. Value creation is considered as a long-term phenomenon that results from managerial action and
interactions between the firms. From their point of view the transfer of capabilities will lead to competitive advantage or, in other words, value creation. Their overall perception of the value-creation process is to consider firms as a set of capabilities embodied in the organizational framework, which can create and sustain elements of competitive advantage for the company.

In their seminal work Haspeslagh & Jemison's (1991) identified four different integration modes. These approaches to integration can be understood by considering two central dimensions of the acquisition. The first dimension is the relationship to the acquiring firm, which relates to the nature of the interdependence that needs to be established between the companies in order to realize the type of strategic capability transfer that is expected. The second dimension is a need for organizational autonomy which is associated with the need to preserve intact the acquired strategic capabilities after the acquisition.

The first integration approach, typically known as preservation, involves both firms continuing to operate separately so that their operations, culture and other organizational characteristics remain intact. Another common integration mode often referred to as absorption depicts a unilateral process where one firm is assimilated into the practices, culture, etc. of the other firm with the eventual goal of full consolidation. The third basic integration approach, symbiotic, entails some degree of change to various aspects of the acquiring and target firm’s organizational design and processes as their leading practices are gradually blended together. The last approach called holding, implies that there is actually no integration taking place between two merging companies.

Ellis (2004) and Ellis, Weber, and Raveh (2003) carried one of the first empirical studies on the existing post – acquisition integration approaches, and provided a rather exhaustive elaboration of managerial practices taken within each of the three major post – acquisition integration approaches:

**Preservation Approach:**

One of the primary drivers of achieving post-acquisition success with the preservation approach is the ability to keep intact those strategic resources and capabilities of the target firm as well as limiting intrusions by the acquiring firm. Thus, realizing potential synergies is not a strategic goal of combined firms using this approach. In essence, this approach maintains boundaries between the two firms and as such involves very little
change in both the acquiring and target firms. Because of the decision to allow the target firm to continue to run operations independently following the acquisition, few, if any, implementation difficulties are expected with the preservation approach. Consequently, in order to be effectively implemented, this approach necessitates integration tasks such as (1) allowing for continuing differences within the target firm, (2) giving autonomy and decision-making authority to the target firm management, (3) permitting the target firm managers to challenge or refute decisions suggested or made by the acquiring firm, and (4) providing resources to improve the operations of the target firm when the need arises.

**Absorption Approach:**

In order to achieve scale economies and exploit other potential synergies, the Absorption approach fully consolidates the operations of both firms. Accomplished primarily by assimilating the target firm into the acquiring firm’s operations, this approach often results in numerous integration difficulties which can adversely affect the combined firm’s ability to realize anticipated deal benefits. Since this approach involves a significant degree of change in the target firm, it is essential to move in a fairly predetermined and quick manner to minimize the level of disruption and uncertainty surrounding post-acquisition integration efforts. Thus, to effectively address the challenges imposed by absorbing the target firm, this approach requires (1) extensive preliminary planning for key integration issues or areas developed before the deal is consummated, (2) communications with employees and other stakeholders throughout the process to minimize uncertainty, (3) a calendar with milestones as well as time pressures for change to lessen the level of disruption in the combined firm, and (4) a limited transition structure to oversee integration efforts, start identifying best practices after eliminating redundancies/achieving cost savings and harness complementary capabilities while seeking uniformity.

**Symbiotic Approach:**

The Symbiotic approach requires both firms to undergo some changes as efforts are made to create a combined firm that reflects the core competencies and best practices of both previous firms. Typically used when the two firms’ operations are more complementary in nature, this approach seeks to achieve some revenue-based synergies via cross-selling products or services and similar activities. To attain the goals associated with this integration approach, there needs to be a period of initial preservation where
members of both firms first coexist and learn from each other before making the strategic changes necessary to gradually amalgamate the two firms. Because it seeks to blend together the operations of both previous firms thereby necessitating autonomy in the target firm as well as strategic interdependence between the firms, the Symbiotic integration approach presents additional complexities during various stages of the acquisition decision-making process. As a result, this approach requires (1) creating an atmosphere that fosters cooperation between members of both firms, (2) allowing target firm managers to have some operational responsibility, (3) developing an extensive transition management structure to coordinate integration activities as well as help identify best practices, and (4) maintaining a slower pace to deal with the multi-faceted issues engendered by balancing the simultaneous need for boundary protection and boundary permeability.

**Bibliography :**

