A Framework for Merger Integration Capability Assessment

A Case Study at Biotage

by

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Abstract

This master thesis, “A Framework for Merger integration Capability Assessment – A Case Study at Biotage”, was carried out at the Stockholm University School of Business and in cooperation with Biotage. This report in detail considers the approach and results in an evaluation of the level of merger integration capability at the company Biotage.

The main purpose with the thesis was to establish a framework that can be applied when assessing a company’s merger integration capability, based on collaborative research between scientific literature and the viewpoints and knowledge of experienced experts in the field. Further, the purpose was to utilize the framework in an assessment of the merger integration capability at Biotage, based on the company’s experience and performance from previous merger integration situations. Derived from the assessment key areas for improvement were identified and prioritized, and actions suggested to be taken by Biotage to increase their capabilities.

As a guideline for the methodology and case study, focus lies upon Saunders (2002) research strategy and Yin’s (2003) strategy in case studies. The empirical information that was used was mainly the data that was received through interviews. The method for analysis was built upon the theory diagram where every property was given a measurable value depending on the answers that were extracted from the data collection. The properties were calculated upwards through the diagram until a value of the merger integration capability at Biotage was received.

The result was that the level of merger integration capability at Biotage was 66% according to the developed framework. On the basis of the evaluation it was possible to conclude that the area that has the highest level of merger integration capability is **Organizational capability**, followed by **IT capability**. The area which was given the lowest score and thus is in need of the greatest improvements was the **Cultural capability**. This was primarily because the company had no cultural due diligence process for facilitating the integration of the cultures.

**Keywords:** Biotage, merger integration capability, integration, mergers & acquisitions, theory diagram
Foreword

This master thesis is our final work at the Stockholm University School of Business. The project was made possible thanks to the support and cooperation from A. T. Kearney and Biotage.

Firstly, we would like to express our gratitude to Fredrik Vernersson at A. T. Kearney. Fredrik provided us with invaluable support, and without his insightful comments this thesis work would have been considerably more difficult to complete. We would also like to thank our supervisor Tor Brunzell for introducing us to the complexities of Mergers & Acquisitions.

We would furthermore like to express our appreciation to Jeff Bork, Jon-Sverre Schanche and Mats-Olof Wallin at Biotage for their contributions in the interviews. The success of the case study was primarily due to their helpful and cooperative participation in answering our many questions.

Erik Bork & Paul Holmström
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Definitions

Acculturation: The process of integrating corporate cultures, which involves that both sides must give something up and embrace something new (Malekzadeh, 1990).

ATD: Architecture theory diagram (Johnson, 2005)

Culture: The values, beliefs, norms, and traditions within an organization that influence the behaviour of its members. The difference in level of formality, loyalty, respect for long service, etc., may vary between firms, giving each one a distinctive ethos, which often conditions the behaviour of new employees. (Oxford, 2005)

ICC: Integration competency center (Gerard, 2004)

IT: Information technology

Integrate: To form, coordinate, or blend into a functioning or unified whole (Britannica, 2006).

Merger: A combination of two or more businesses of an equal footing that results in the creation of a new reporting entity formed from the combining businesses (Oxford, 2005).

M&A: Merger & Acquisition

OSM: Office Strategic Management

PMI: Post-merger integration

System: A collection of real-world items organized for a given purpose. A system is organized by its structure and behavior (IDEAS, 2003).
1 Introduction

1.1 Background

At its peak in 2000, the worldwide value of announced Merger & Acquisition (M&A) transactions was more than $3,700 billion. After the bursting of the stock-market bubble in 2000, M&A activity collapsed. The year 2004 saw a clear rebound, which has continued even more strongly in the last years. At a time of such a strong upward trend, many business executives are asking themselves how they should best go about takeovers. (Kilefors and Vantrappen, 2005)

Managing the merger of two companies is certainly one of the most difficult assignments one can face in the corporate world. Anyone who has led the implementation of a large information system or the relocation of a facility knows how many headaches can be associated with those sorts of challenges. But leading integration involves all the problems of those projects plus an even longer list of management demands. In addition, all of these challenges must be handled in an environment characterized by complicated, high-pressure conditions. (Pritchett, 1997)

Biotage AB is a global company providing innovative solutions, knowledge and experience in the areas of medicinal and analytical chemistry, process development and genetic analysis. It was formed in December 2003 following the acquisition by Pyrosequencing of Personal Chemistry and Biotage LLC. The company has continued to grow with the recent acquisitions of Argonaut Technologies’ business in June 2005 and Separtis AG in October 2005. (Biotage, 2006)

Using the methods presented in this thesis, foremost the architecture theory diagram, an attempt was made to break down merger integration into operationalized properties, which can be measured. The framework was then applied in a case study at Biotage in order to assess their merger integration capability, based on their previous mergers.

1.2 Purpose and Goal

The main purpose with this master’s thesis was to establish a framework that can be applied when assessing a company’s merger integration capability. The thesis should give an overview of all the different aspects of integration, based on collaborative research between academic viewpoints and the knowledge of industry experts.

Another goal is that the theoretical framework should be used to conduct a case study at Biotage. According to Madhavan (2002) it is possible to capture more value as a skilled acquirer. The potential objectives of the case study are to assess the capabilities and practices in merger integration at Biotage based on:

- The company’s experience and performance from previous Merger Integration situations
- An assessment of the company’s “merger integration capabilities”, i.e. whether structures at Biotage are suitable for merger integration. These structures include e.g. organizational capability, IT capability, cultural capability etc.
Identify and prioritize key areas for improvement
Suggest actions to be taken by Biotage to increase capabilities

1.3 Questions at Issue

High demands are put on the acquirer in order to successfully integrate the target company into its business, regarding both people and systems. This is a prerequisite for the company to achieve the synergies that motivated the acquisition in the first place. With consideration to the “Purpose and Goal”, chapter 1.2, the following questions at issue were created.

Main questions
• How can merger integration capability be assessed?
• How high is the merger integration capability at Biotage according to the established framework?

1.4 Delimitation

Because every merger is different in its details there can be difficulties when attempting to find all the factors that can lead to the success of merger integration. Instead, the established framework addresses shared best practices which can be seen in predictable stages and decisions. The developed framework for assessing merger integration capability should be general in nature so that it can be applied to any company.

The case study was delimited to Biotage and the merger integration decisions that they have taken during the last couple of years. We want to emphasize that the purpose of the thesis is not to provide a comprehensive solution to all the future integration work at Biotage. Instead we want to explore what has happened in the past and discuss this in the context of best practices and the created framework.

1.5 Target Reader

The purpose of this thesis is to present a framework that companies can apply when establishing merger integration capability. Since the thesis consists of an extensive literature study, it is also directed to finance students who have an interest in merger integration. The complexity of the topic might require a bit of prior knowledge from the reader in order to fully grasp the theory and results.

In addition the purpose of the thesis was to assess the capabilities and practices in merger integration at Biotage, and thus they are also target readers of this thesis.

1.6 Outline

The thesis was divided into the chapters’ methodology, mergers & acquisitions, framework structure, merger integration capability framework, interviews, results of the case study, analysis, conclusions & discussion, and future work/investigation. The methodology chapter is intended for describing the work procedure that was used, and which strategies that were applied in the actual implementation of the investigation. In the theory chapters explanations of the most important aspects of merger integration were presented along with a description of how the framework is organized. The framework consists of the factors that have been identified in the literature study that positively affects the success of merger integration. The
interview chapter consists of answers to the interviews. The thesis is then concluded with the case study results, analysis, conclusions, discussion and finally a chapter for discussing future work that could be carried out.
2 Method

The methodology is the work procedure that is used to fulfill the purpose of an investigation. In this chapter the thoughts around the choice of methodology will be explained and in the light of present theories the work procedure that was chosen to attack the problem will be presented, and what was done to fulfill the purpose of the thesis. There exists numerous theories on how a case study could be built in order to receive a scientifically correct result, and through this chapter the reader will receive a deeper understanding of the thoughts surrounding the different parts of the thesis. To accomplish this understanding the practical work procedure of the thesis, and also the general research philosophies and approaches, will be described.

![Figur 1: Workflow in the thesis](image)

A good way of describing the workflow in this thesis is to look at it as the solving of a puzzle, where the finished puzzle is the framework for merger integration capability assessment. The problem, in this case, was that the pieces of the puzzle had to be found before they could be organized in the correct way. In order to find the pieces to the puzzle, the literature study and interview was carried out. This resulted in a framework which afterwards was applied in a case study.

2.1 Research Philosophy

Two views, describing the development of knowledge during the research process dominate existing literature; positivism and phenomenology (Thurén, 2002). Each philosophy constitutes an individual approach for research, but it should be said that neither view is superior the other. Rather, they emphasise different aspects on how research can be conducted.

The assumption that the social reality is both observable and measurable constitutes the foundation of positivism. A researcher adopting the positivism stance assumes the role of an objective analyst, coolly making detached interpretations about those data that have been collected in an apparently value-free manner. The results from analyzing the utilized data should arrive at conclusions usually expressed as reliable, causal relations. (Saunders, 2000)

Phenomenology, unlike positivism, argues that the empirical results are dependent on surrounding circumstances and individuals associated in the study. Phenomenology also assumes interpretations to be subjective, i.e. unrelated researchers are likely to reach different
conclusions. Thus, phenomenologists believe that it is neither possible nor important to generalize the social reality and they argue for the necessity of details in the investigation in order to reveal the true underlying phenomena. (Saunders, 2002)

2.1.1 Utilized Research Philosophy
The authors of this thesis have tried to be objective and make detached interpretations about those data that have been collected, in an apparently value-free manner. The empery was analyzed in a structured and logical manner in accordance to the established framework, in order to avoid subjective interpretations, thus suggesting a positivistic view.

2.2 Research Approaches
There are two commonly utilized research approaches; the deductive and the inductive approach. It should be said that these two approaches are not mutually exclusive; in fact they can advantageously be combined within the same essay. (Saunders, 2002)

The deductive approach involves the development of a theory and hypothesis, usually a causal relationship between two or more variables, which subsequently undergoes rigorous tests by using empiric data. Deduction emphasises that variables need to be operationalized in a way that enables facts to be measured quantitatively, a highly structured approach, the collection of quantitative data and the necessity to select samples of sufficient size in order to generalize conclusions. (Saunders, 2002)

The alternative would be an inductive approach; where one would collect data and develop a theory as a result of the data analysis. Induction emphasises gaining an understanding of the meanings humans attach to events, a close understanding of the research context, a realisation that the researcher is part of the research process, the collection of qualitative data and less concern with the need to generalise. (Saunders, 2002)

2.2.1 Utilized Research Approach
The research approach utilized in this thesis is primarily deduction. An important characteristic in the deductive approach is the possibility to explain causal relationships between variables. This thesis involves the development of theory that is subjected to tests in the form of empirical inquiries. The interviews will either confirm the theory or, if necessary, indicate the need for its modification in the light of the new findings.

2.3 Research Strategy
The research strategy will be a general plan of how the researchers will go about answering the research questions that they have set. It will contain clear objectives, derived from the research question(s), specify the sources from which the researchers intend to collect data and consider constraints (e.g. time, location and money, access to data) which the researchers inevitably have. (Saunders, 2000)

2.3.1 Utilized Research Strategy
There are a few strategies to choose from and, even though they are not mutually exclusive, the one chosen for this thesis was a case study. A case study is defined as the ‘development of detailed, intensive knowledge about a single case, or a small number of related cases. This strategy is of particular interest if the researchers wish to gain a rich understanding of the
context of the research and the processes being enacted. The case study approach also has the ability to generate answers to the question ‘why?’ as well as the ‘how?’ and ‘what?’ questions. (Saunders, 2000)

According to Yin (2003) one of the strengths with a case study is the possibility to deal with many different variables in an investigation, and at the same time handle many different kinds of sources. Researchers attempting to investigate a case are faced with four problems:

1. Which questions should be investigated?
2. Which data are relevant?
3. Which data should be gathered?
4. How should the collected data be analyzed?

Sources of Evidence
Evidence is the data collected in the thesis. There are several ways to collect your data, Yin (2003) presents six of them, and these are:

- **Documentation**
  Letters, agendas, administrative documents, formal studies and/or newspaper clippings are some examples of possible documentation that data can be collected from.

- **Archival Records**
  Archival records often take the form of computer files and records, e.g. service records, organizational records, maps and charts, lists, survey data, and personal records. These are also a kind of documentation and can be used in conjunction with other sources.

- **Interviews**
  Interviews are considered to be the most important source of case study information. Two different ways of doing an interview are presented, either one with an open-ended nature or a focused interview.

- **Direct Observations**
  This data collection method is based on field visits to the case study “site”. One can for example observe meetings, factory work, integration activities, and the like.

- **Participant Observation**
  The participant observation is a special mode of observation, where the observant not only observes, but also participates in the activity.

- **Physical Artifacts**
  Finally, the physical artifact, which can be a technological device, a tool or instrument, or some other kind of physical evidence, is presented as a data collection approach. Such artifacts may be collected or observed as a part of a field visit.

Utilized Sources of Evidence
These data acquisition methods all have their advantages and weaknesses. The direct and participant observations have not been chosen for this study, because participation in an actual post-merger integration is both time consuming and costly. The physical artifacts approach is
dropped due to the lack of strengths that it contributes in utilization with this type of case study.

The chosen methods for data collection were interviews and to some extent even documentation/archival records. Interviews were applied both during the development of the framework, and the case study. This collection method was chosen because it makes it possible to focus directly on the subject of interest. Interviews can generally be divided into the categories visiting interview, group interview and telephone interview; where they all possess their own specific strengths and weaknesses. The form of the interview that is best suited for a case depends on the unique situation that the researchers are in, and the methodology that has been chosen. In this thesis visiting interviews were chosen because open questions could be discussed, that are easier for the respondent to answer. This also made it possible to clarify any uncertainties, and follow-up questions could also be utilized when necessary.

Strengths for the documentation method is the stability, you can review the documents repeatedly, broad coverage and exact, and unobtrusive, the documents are not created as a result of the case study. The main weakness for studying documentation at an organization is the accessibility, due to its privacy and security. The documentation used in developing the framework was provided by A. T. Kearney.

When the decision has been made to use interviews, another important aspect is if the interviews should be conducted with a quantitative or qualitative method. In a quantitative interview the questions are impersonal and defined beforehand in a structured manner that is similar to a survey. A qualitative interview is on the other hand informal and is similar to a normal conversation. (Patel & Davidson, 2003)

The researchers chose a mix of quantitative and qualitative interviews. All conducted interviews in the case study can be defined as semi-structured with an exploratory purpose. Yes and no questions regarding the integration process at Biotage were used, but also open questions in order to gain a deeper understanding of the context.

The purpose of the interviews was two-folded. The first interview was with a management consultant and principal at A. T. Kearney and the focus was to validate the established theory. The respondent was on the one hand asked to give his opinion on the framework, for validation purposes. On the other hand the respondent was asked to give specific proposals on what could be missing in the framework. In this way he could use his knowledge critically as well as creatively.

The second purpose of the interviews was to employ the framework in a case study at Biotage in order to assess their merger integration capability. In order to obtain the necessary information interviews were held with the CEO, vice president of R&D and the CFO.

Because the interviews were the primary parts of the data collection, it was important to guarantee that the questions and the answers were interpreted in the same way by the interviewers and the respondents. This was achieved by taping the interviews so that the results would be more reliable. The finished interviews were then compiled and sent to the respondents for approval. Interview protocols were created in order to maintain the chain of evidence in the thesis.
2.4 Literature Study

In order to create a solid foundation to stand upon, a literature study was the first activity that was started. This was done to increase the knowledge within the subject of post merger integration, but it was also an integrated part of creating the architecture theory diagrams. As more and more literature was read, an evaluation was possible to make upon which information that was most relevant on the topic.

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2.5 Quality Aspects

This chapter deals with the aspects that affect the quality of the established framework and the case study. Yin (2003) mentions three principles for how the actual data gathering should be managed in order to increase the reliability and validity in the case study:

1) Using multiple, not just single sources of evidence (data triangulation)
2) Creating a case study database (organization and documentation of gathered data)
3) Maintaining a chain of evidence (an external observer should be able to trace the steps from the initial research questions to the ultimate case study conclusions)

2.5.1 Reliability

Reliability means that the assessments are correctly done and thus reliable (Thurén, 2002). This can be achieved by asking the following two questions: Will the measurements give the same result at two different occasions? Will similar observations be made by different researchers at different occasions (Saunders, 2002)?

To ensure reliability in this master thesis the following was done:
- All the interviews were recorded on tape and documented.
- The documented interviews were sent to the respondent for approval.
- Multiple sources of evidence were used.

2.5.2 Validity

Validity means that the researcher really has investigated that which was the purpose of the investigation, and nothing else (Thurén, 2002). The results should in other words agree with the studied phenomenon and the purpose of the investigation. It is possible to have high reliability in an investigation, i.e. all assessments are correctly conducted, but still have low validity. For example, the length of soccer field could be correctly measured, but it was the width that was asked for. External validity deals with the problem of knowing whether a study’s findings can be generalized beyond the immediate case study.

To ensure validity in this master thesis the following was done:
• During the process of creating the architecture theory diagrams, the different properties and the general outline was validated in an interview with A. T. Kearney.
• Visiting interviews were chosen so that open questions could be asked that would be easier for the respondent to answer. This also meant that any misinterpretations could be dealt with, and that follow-up questions could be used to clarify.
• The framework was created in order to be applied in any merger, but the case study at Biotage can not be generalized.
• Multiple sources of evidence were used.

2.5.3 Specificity
Another vital issue is how specific the theory is. With respect to properties, a theory that specifies operationalized properties is more specific, and thus useful, than one that only specifies intermediate relations. Similarly, a theory that specifies a priori relations is probably more useful than one that only specifies a posteriori relations. With respect to relations, a theory that only specifies some definitions (compositional relations) will tell us less about the world than a theory that specifies correlation relations. Similarly, a theory that specifies correlations is less specific than one that specifies causal relations. (Johnson, 2005)

The framework is detailed down to the operationalized properties at every domain and only causal relations are used. This should account for a high degree of specificity for the established frameworks.

2.5.4 Credibility
The credibility of some part of a theory diagram may be assessed in two ways. Either argue for it yourself, or refer to someone else. In the first case, the credibility depends on the strength of the argumentation. In the latter, the credibility depends on the credibility of the institution or person whom is referred to. (Johnson, 2005)

The articles and books used are almost all well established, published at conferences with a high reputation or written by an author who is well recognized within the topic. The consultant that was interviewed in order to validate the framework works at a leading management consulting firm and has extensive experience of previous mergers. This should account for high credibility.

2.5.5 Information Search Cost
Another criterion is related to the resources required when searching for the information needed by the analysis. This criterion thus considers the practical ease with which the theory can be employed. (Johnson, 2005)

The information required in order to make an assessment at a company only requires the participation of executives or integration managers that were actively involved in the integration process, thus the framework is quite effortlessly employed.
3 Mergers & Acquisitions

Many studies have shown that the most treacherous time in the business of mergers comes after the two companies tie the knot, i.e. when they attempt to integrate operations. The reports from both financial analysts and the media are that most mergers fail. Further, there have been numerous reports of culture clashes, confusion, and internal disruptions when two companies are combined – with dramatic declines in employee and customer satisfaction, leading to significant declines in profitability. The Daimler – Chrysler merger quickly decreased value by $60 billion. (Epstein, 2004)

3.1 Merger Integration

According to Encyclopedia Britannica Online (2005) the verb ‘integrate’ means “to form, coordinate, or blend into a functioning or unified whole”.

Shrivastava (1985), states that the primary problems in effectively managing mergers are the efforts to integrate separate companies into a single unit. According to Lindgren (1982) integration is defined in the context of mergers as the instruments, procedures and processes (integrative devices) used by the acquirer in order to undertake changes in the systems and structure in the target company. The focus lies at how they are related to the various objectives for the integration process as set up by the management in the acquiring company.

According to Galpin & Herndon (2000) the aim of ‘merger integration’ is to implement the combined organization with its processes, its people, its technology, and its systems. The motive for this effort is to realize the intended benefits of the deal, i.e. to achieve the business rationale for the merger (Rouse & Rovit, 2004).

3.2 Successful M&A

The decision to get involved in M&A can be seen as a corporate decision. Notions of success and failure are more and more emphasized toward value creation from a shareholders point of view (Bruner, 2004). The primary source of value in a merger is when the synergy exceeds the value of the premium paid: this happens when the combined companies create a value that is more than the sum of the value created by the separate companies. (Goldberg et al., 2001)

Goldberg et al. (2001) states three main categories of synergy value sources in M&A:

- **Strengthening or levering core business**: Can be done by (1) accessing new customers or new customer segments, e.g. by entering geographic markets, or (2) by offering complementary or better products.
- **Reducing costs**: By using the principle of economies of scale, it is possible to lowers costs by using resources more efficiently.
- **Benefits from technology or skill transfer**: Being able to use and transfer special technology or skills between the merging partners and allow them to use these at a greater volume.
3.3 Merger Trade-Offs

*Winning all the battles, while losing the war*

Implementing the best practice may not be the best practice; there must always be an intelligent analysis of the cost and benefit of every integration measure. Rouse & Rovit (2004) states that integration efforts often destroy value not as a result of inattention to detail but through excessive zeal in the integration effort. This analysis may be more important than the speed of the integration and according to Jonk & Ungerath (2006), companies should avoid the temptation to emphasise outright speed in their merger integration.

In reality having too much integration might block the companies from realizing the intended benefits with the deal, as easily as too little can. Many companies have focused their organization too much on the merger integration and have in a fast-moving, intensely competitive market lost their competitive advantage. When the integration effort becomes too large, a certain defocus on the actual operation can arise, where the company loses its momentum in e.g. product development and sales. Therefore the integration effort must be highly focused on where the value in the merger is, which varies from deal to deal together with the length an acquirer must go to capture it. To identify these values you must turn to the business rationale behind the merger, which is the vision and strategic intent that motivated the deal. (Rouse & Rovit, 2004)

3.4 Phases of a Merger

The merger can be divided into a pre-merger phase and a post-merger phase. The pre-merger stage begins once the decision to merge has been made, and ends with the formal change of control (Appelbaum et al., 2000). There is no general end to the post-merger phase, however according to Engelson et al. (2005); the normal length of the entire process is about two years or more.

These two phases of the merger are not independent of one another; what happens in the pre-merger phase sets the stage for what happens in the post-merger phase (Pritchett, 1997). According to Barr (1997), “A large part of what makes a deal successful after you complete it is what you do before you complete it”.

3.4.1 Pre-Merger Phase

An acquisition or merger begins with a strategic vision that motivates a specific deal, and proceeds with a due diligence of the target (Engelson et al., 2005). The due diligence is an evaluation that encompasses the targets customers, competitors, resources and sources of
value (Habek et al., 2000). The acquirer will approach the target and seek to gather information directly from the company in the due diligence. This process leads to an offer/bid on the target and sets the stage for the integration preparations. While the shareholder and other approvals are awaited, the target proceeds with establishing structures and plans for the integration. In some cases the actual integration can start in this stage, otherwise it begins after the legal consummation of the deal when the control is changed. (Galpin & Herndon, 2000)

3.4.2 Post-Merger Phase

The post-merger phase, or implementation, consists of in detail finalizing the integration plan for the separate companies, and then implementing this integration (Galpin & Herndon, 2000). This phase includes the measures undertaken to realize the objectives for the acquisitions as identified in the pre-merger phase. (Habeck et al., 2000)

3.5 Integration Strategy

According to Bruner (2004) all mergers are unique, and therefore there is no single blueprint for successful integrations. However the integration strategy should originate from the underlying rationale for the merger, i.e. the integration strategy should follow the business strategy. It is vital that the integration tailoring should start with a clear sense of the aims of the acquisition, which depends on three different considerations; autonomy, interdependence and control.

**Autonomy**, i.e. will the acquisition target exist on its own, is more than the continuation of a brand name, manufacturing plant or head office. It also resides in the preservation of culture, the continuation of a leadership team and is even reflected in the interdependence of decision making. Autonomy matters if the preservation of leadership, culture, and decision making are vital to achieving the strategic aims of the acquisition. (Bruner, 2004)

**Interdependence** is affected by how closely the target must be coupled with the buyer’s value chain and business processes in order to attain the acquisition aims. The synergies that will be obtained through scale and scope are strongly impacted by the degree of interdependence. (Bruner, 2004) According to DiGeorgio (2002) the higher the degree of integration needed, the more difficult success becomes.

The degree of **control** that is needed over the target company depends on the strategic risks associated with the acquisition, and how the risks should be managed. Control over a company can be achieved in a number of ways, e.g. appointment of a CFO from the home office or installation of a new financial reporting system. (Bruner, 2004)

Bruner (2004) discusses four classic strategies, residing from the considerations mentioned above, that can be applied in post-merger integration:

1. **Preservation**: When applying this strategy the target company is left almost entirely alone, without any changes. A trademark for this strategy is that the target company enjoys a high degree of autonomy, relative low control, and low interdependence with the business processes of the parent.

2. **Confederation**: This strategy is important when there is need to control risks while preserving the unique qualities of the target. The target is given relatively high autonomy, subject to high controls and to low links of interdependence.
3. **Linking**: Where it is desirable to maintain the culture of the target but also to establish the buyer’s controls and link the target to the buyer’s business processes and value chain. The target enjoys considerable autonomy, subject to high controls and high interdependence through business process alignment.

4. **Absorption**: The strategy is used where the aim is to exploit economies of scale and/or remove capacity out of the industry. To eliminate distinction of the target from the buyer, the target is subject to low autonomy, high control and high interdependence of business processes.

Numerous other strategies could be possible, and a particular merger might be a candidate for two or more strategies – the deciding factor should be the fit with the rationale for the merger.

![Figure 2: Comparative Integration Strategies (Bruner, 2004)]

### 3.5.1 Culture Strategy

“The values, beliefs, norms, and traditions within an organization that influence the behaviour of its members. The difference in level of formality, loyalty, respect for long service, etc., may vary between firms, giving each one a distinctive ethos, which often conditions the behaviour of new employees.” (Oxford, 2005)

A highly complex and very crucial factor in the merger integration is the corporate culture, which has slightly different properties than other areas. When two organisations are integrated, some cultural clashes are unavoidable, since the process involves that both sides must give something up and embrace something new. This process is formally known as ‘acculturation’. The similarity between cultures is however not synonym with the level of integration needed, and thus rather than seeking cultural similarity, managers need to agree on the choice of acculturation. The choices of strategies for acculturation are integration, assimilation, separation, and deculturation. (Malekzadeh, 1990)

1. **Integration**: This implies that none of the two sides imposes their culture on the other, but that a balanced managerial practice is established (no real change to either
corporation). This integration strategy is more advantageous in related mergers when the two companies have much in common. Successful implementation is greatly a product of the target’s desire to be integrated.

2. Assimilation: A welcomed imposition of one culture on the other, which results in the target completely becoming a part of the acquirer (or v.v.). This strategy should be preferred when the merger is a related industry and has a weak culture.

3. Separation: This strategy leads to no cultural exchange between the companies and establishes only essential control systems. This strategy is appropriate when the merger is between companies in unrelated industries and where the target has a strong culture with no desire to adopt a new.

4. Deculturation: A strategy that involves disintegration of the target’s culture and substituting it with the acquirer’s. This process is often accompanied by great confusion, stress and uncertainty in the targets organisation. These mergers tend to be in unrelated industries and be highly resisted by the target.

According to Cartwright (1992), each of these strategies for acculturation should originate from two different dimensions, the willingness of each company’s staff to abandon their old culture and their perception of the attractiveness of the other company’s culture.

![Figure 3: Strategies for acculturation (Cartwright, 1992)](image)

### 3.5.2 IT Strategy

When the merging partners overlook the merger strategy in IT integration, the risks of ‘over integrating’ or ‘under integrating’ exists. If the merger strategy only involves limited integration of business processes, only a limited level of IT integration is required. By integrating too much or too little, the IT does not facilitate the processes of the merged company well enough. (Chang et al., 2002) The IT strategies should thus be closely coupled to the merger strategies and goals.
The choice of IT strategy is an important aspect during M&A. Wirz et al. (2004) state that, in a merger, the involved companies have four main alternatives to unifying their IT:

1. **Take-over**: The companies decide which system is the best and the other one disappears.
2. **Best of breed**: The companies take the best parts of the existing systems and combine them.
3. **Disconnection**: Both systems will keep on existing, perhaps with the synchronization of data.
4. **New System**: An entire new system is developed.

The core systems of big companies are so complex that there is simply not enough time during a concentration process to aspire to develop a new system. With "best of a breed" there is a tendency to expect extensive synergy gains, but the integration of the components is difficult. Parts of the two systems do not integrate well if the components are too different. Disconnection makes sense for companies from different business areas, e.g. banks often choose disconnection to comply with legal restrictions. In other words the IT strategy is limited by the goals associated with the merger as well as other factors: the complexity of the existing systems and the physical or geographical distribution between the organizations. (Wirz et al., 2004)
4 Framework Structure

As mentioned, the framework will be structured as architecture theory diagrams. According to Johnson (2005) there are three reasons for why an architecture theory diagram is used:

1. Different competing theories can be compared and thus the theory most suitable can be chosen.
2. Using a theory diagram makes the theory explicit and with that facilitates both critical inspection and reuse of the theory.
3. The use of an ATD gives detailed information on what a good architecture model must contain.

Theory diagrams are composed of boxes, which represent properties, and lines, which represent relations. The different kinds of properties and relations are detailed below.

4.1 Properties

Properties may be of different kinds and may have adornments according to Johnson (2005).

<table>
<thead>
<tr>
<th>Property A</th>
<th>Property A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intermediate Property</td>
<td>Operationalized Property</td>
</tr>
<tr>
<td>The property is unambiguously measurable</td>
<td></td>
</tr>
<tr>
<td>Property A</td>
<td>Property A</td>
</tr>
<tr>
<td>A Priori Measurable The value can be assessed before implementation</td>
<td></td>
</tr>
<tr>
<td>Property A</td>
<td></td>
</tr>
<tr>
<td>A Posteriori Measurable The value can only be assessed after implementation</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4: Types of properties (Johnson, 2005)

4.1.1 Main Property

The main property is the property under investigation. The purpose of assessment is to obtain a value for this property. Since the main property generally is not an operationalized property (cf. below), the measurement process is typically dependent on underlying properties. (Johnson, 2005) In this case the main property is Merger Integration Capability.

4.1.2 Operationalized Property

The value of an operationalized property is assumed to be unambiguously measurable to people performing assessments according to the theory diagram. In particular, this means that the property is sufficiently well-defined to make probable that two independent inquiries would obtain the same measurement of the property. That a property be operationalized does not necessarily mean that it is easily available. (Johnson, 2005) An example of a operationalized property is Communication Plan.
4.1.3 **Intermediate Property**

Intermediate properties are neither the main property nor operationalized properties. As with the main property, their measurement depends on underlying properties. Unlike the main property, the purpose of the investigation is not to find values for these properties; they are but means to an end. (Johnson, 2005) *Communication Capability* is a typical intermediate property.

![Communication Capability](image)

4.1.4 **A Priori Measurable Properties**

Some properties are measurable already at an early stage. These properties, that may be assessed early, are called a priori measurable properties. (Johnson, 2005) In this thesis the a priori measurable properties are also the properties that are important to accomplish before the change in control in the merger. Besides *Communication Plan* that is seen above, *Clear IT Vision* is also an a priori measurable property.

![Clear IT Vision](image)

4.1.5 **A Posteriori Measurable Properties**

Some properties are measurable only at certain points in time. In software management, it is often the case that a property is only effectively measurable after some related activity has taken place; for instance, properties of an IT system are typically measurable only after the system has been developed and implemented. These measures are called a posteriori measurable properties. (Johnson, 2005) A posteriori measurable properties are important throughout the post-merger phase and are therefore assessed after the execution of integration processes. *Continuous information* is an example of a typical a posteriori property.

![Continuous Information](image)

4.2 **Adornments**

A property box may contain only the name of the property. However, oftentimes, it may be relevant to provide more information. A standard adornment is the reference. By introducing a reference a citation to the source of the information, or a comment may be added.

The references used in the ATD are written with [X], where X denotes the number of the article. A selection of these references has then been used to describe the property in the text.
that follows each figure. All references made in the text have been written in Harvard Style and can be found in chapter 11: References. A complete list of the ATD references can be found in Appendix 2.

4.3 Relations

Theories are sets of properties with relations between them used to explain some aspect of the world. We have discussed the properties and now move on to the relations. The architecture theory diagrams feature three different types of relations, explained in greater detail here. (Johnson, 2005)

![Figure 5: Types of relations (Johnson, 2005)](image)

4.3.1 Composition Relations

Compositional relations may also be called definitional relations. One property is composed of other properties if it is defined in terms of these other properties. No such property is operationalized, i.e. it cannot be measured without measuring the properties that defines it. (Johnson, 2005)

4.3.2 Causal Relations

Causal relations denote that one property causally affects another. It is thus the result of the fundamental epistemological concept of cause-and-effect. Thus, when Property A changes, Property B is affected and changes too. (Johnson, 2005)

4.3.3 Correlation Relations

Correlation relations imply that a change to one property coincides with a change to another property. All causal relations correlate, but not all correlation relations are causally related. Or to be more precise, not all correlation relations are directly causally related. For example, Property A and Property B may be correlated if both are affected by (causally related to) Property C. (Johnson, 2005)

4.4 Priority

The strength of the relations in an architectural theory diagram may be different. Some properties affect each other much while other properties are less important. This strength may be indicated by various types of scales, e.g. percentage scales or other. (Johnson, 2005) In this thesis no weights have been given to the different properties.
5 Merger Integration Capability Framework

“You cannot manage what you do not measure”

In this section the framework for assessing merger integration capability is presented, both in text and in figures. Merger integration has been decomposed into measurable variables (activities and properties) using architecture theory diagrams for making the theory explicit. While every merger is different in its details, each also proceeds through predictable stages and decisions, which can be addressed through shared best practices.

By making decisions on the different properties, e.g. communication, IT etc., a company can develop the ‘capability’ of becoming a successful merging partner. This is attractive when taking over a company but also when being taken over. This capability will be called: ‘merger integration capability’. It indicates the degree to which a company is capable to successfully integrate its different areas, processes, its people, its technology, and its systems with that of another company. The definition of ‘merger integration capability’ will be: ‘the ability of the merging partners to contribute to the success of an M&A opportunity’.

The proposed framework consists of variables having a positive influence on the ‘merger integration capability’ of a company. The top level of the framework consists of the intermediate properties Strategic Capability, Communication Capability, Structural Capability, Project Management Capability, Organisational Capability, Cultural Capability and IT Capability. The capability within each area is defined as ‘the ability for that intermediary property to contribute to the success of an M&A opportunity’.

These properties all have a compositional relationship with the merger integration capability, i.e. the property is defined in terms of these other properties. Some of the domains can be assessed before the change in control, while others can only be assessed after the merger.

It should be kept in mind that the properties that facilitate integration success must happen at multiple levels in the organization to be effective, especially if the combination is very large (DiGiorgio, 2002).

The capability assessment depends on the companies previous experiences in a merger and is for this reason performed after the merger is complete. In contrast, if an executive was trying to improve the integration process of his/her company in “real-time” the time aspect of a priori/ a posteriori (discussed in chapter 4: Framework Structure) not only gives a picture of when certain properties are measurable, but also when they should be completed. This is
especially true for all properties that can be assessed pre-merger, such as *Communication Plan*, where it is important that the plan has actually been established before the change in control.

Building merger integration capability will contribute to several areas of synergy value, even if its most obvious contribution lies in reducing costs and hindering the destruction of value. For example, IT capability can besides creating a more flexible organisation, also lead to the use of resources such as the IT infrastructure more efficiently, thereby reducing costs. Organizational capability makes it possible to reduce redundant personnel and thus reduce costs. At the same time organizational capability will help retain key personnel and enable the merging partners to benefit from skill transfer etc. These types of contributions can be seen from all the parts of the established framework.

![Figure 7: Synergy Value from Merger Integration Capability](image-url)
5.1 Strategic Capability

“The most important integration success factor is to clarify strategy and direction. This means ensuring that the business rationale is clear and widely understood; developing and communicating the vision for the new organization, and helping employees understand the benefits of the deal.” (Engelson et al., 2005)

5.1.1 Clear Vision

Habek et al. (2000) argue that to guide post-merger integration it is important with a clear and realistic vision derived from thorough business due diligence which addresses customers, capabilities, competitors, costs and culture. In case of change brought about by a merger, the vision for the combined company forms the touchstone in efforts to create enthusiasm and to set and manage clear expectations. Above all, it provides the orientation which is crucial to harnessing and focusing the company’s resources.

Vernersson (2006) also mentions the importance of clearly articulating the reasons behind the merger. When there is a clear vision and strategy behind the merger, there is also a specified objective for the integration effort that can be decomposed into explicit goals. It is essential that the vision is understandable for the integration effort to be successful.
5.1.2 Coherent Integration Strategy

According to Epstein (2004) a driver for successful post-merger integration is that the new organization should have a well articulated and coherent integration strategy that reinforces that this is a “merger of equals”. This approach is important and should continue throughout the PMI in selection of systems, processes, and practices etc. All decisions should be made on the basis of a neutral, objective decision-making process that considers the solutions employed in the previous organization, as well as any other alternatives, along with the system conversion costs. The integration strategy is in addition to the merger strategy and articulates how the merger will be integrated.

According to Habeck et al. (2004) it is important to develop the strategy for cultural integration before the merger. Important decisions to make are if you are going to impose one of the cultures, leave them separate, or create a compound culture. Before imposing a culture, be sure that the new culture is better than the one it replaces. The strategy is also important in IT where the different alternatives could be to keep system that is best while the other one disappears, take the best parts of the existing systems and combine them, let both systems coexist, or develop an entire new system (Menge, 2005).

5.1.3 Quantifiable Goals and Measures

“Many of the conventional problems associated with mergers and acquisitions are a direct offshoot of people going off on tangents, operating in a fog, or essentially shifting into neutral for lack of well-defined goals.” (Pritchett, 1997)

According to Galpin & Herndon (2000) it is important to have goals and measures explicitly for the merged company’s development. In part due to the need to monitor the progress and in part to monitor if the intended goals are reached by the integration efforts. Measurable goals and objectives let people know what a successful integration will look like and how long it will take, thus smoothing integration. According to Epstein (2004) the measures should be aligned with the merger strategy and vision. Both financial and non-financial measures should be included in the information provided to integration and business leaders to adequately monitor performance.

According to GSAM (2003) the following key concepts are important:
1. Processes have associated goals.
2. Each goal leads to one or more questions regarding the accomplishment of the goal.
3. Each question leads to one or more metrics needed to answer the question.
4. Each metric requires two or more measurements to produce the metric. (e.g. budget spent vs. budget planned, actual vs. predicted execution time, etc.)
5. Measurements are selected to provide data that will accurately produce the metric.

Integration Goals

According to Galpin & Herndon (2000) integration measures are necessary in assessing specific integration activities and mechanics and thereby determining whether the overall integration process is accomplishing its mission. Such measures could be assessed through interviews with integration team members or employees in order to get continuous feedback during the integration process.
Operational Goals
Operational measures are necessary in order to track any potential merger-related impact on the organizations ability to conduct its continuing, day-to-day business. Examples of such measures would include statistics that indicate more than the normal number of productivity- or quality-related issues or that reveal an inability to process accounts receivable in a timely manner. (Galpin & Herndon, 2000)

Process & Cultural Goals
Process and cultural measures are necessary in determining the status of merger-driven efforts to redesign business processes or elements of the organizational culture. Examples of goals and measures for cultural integration could concern values, behavioral guidelines, policies etc. (Galpin & Herndon, 2000)

Financial Goals
Financial measures are necessary in tracking and reporting on whether the organization is achieving the expected financial synergies of the deal. Effective measures of synergy must be based on a comprehensive process of planning and verifying the achievement of the expected synergies. (Galpin & Herndon, 2000) The company should quantify cost savings and revenue synergies to that both employees and investors have a concrete sense of what direction the company is heading. (Epstein, 2004)

According to Vernersson (2006), any deal that has to much focus on only the cost saving side of the merger is doomed to fail. The formulated goals for the integration process should be oriented towards the overall growth and development of the organization, e.g. revenue growth.

Time Factor for the Goals
Speed is absolutely essential to realize the anticipated goals for a post-merger integration. Having the intended benefits of the merger effectively realized immediately following the legal consummation of the deal greatly reduces the risk of unsuccessful integration. In a rapidly changing environment, uncertainty, fear and indecisiveness can easily delay the integration unto the projected synergies are no longer possible to achieve. (Epstein, 2004)

Appelbaum et al. (2000) point out that the goals for the organization in general should be clearly defined, as well as reached within proper and reasonable time frames. Otherwise the integration process will drag out and eventually not change at all but revert to the old way of doing things. According to Vernersson (2006), there is a need for a time aspect to the integration goals. This time aspect is very important because it enables the identification of early wins, which may only be realizable directly after the merger.

Customer Oriented Goals
According to Vernersson (2006) it is important to put emphasis on creating a customer oriented approach to the integration effort because most companies entering into post merger integration easily find themselves becoming introvert and focused on the internal organization rather than on the customers. Thus it becomes necessary to establish clear customer oriented goals in the integration process. Measures that can be used are e.g. number of new customers and number of customers lost (churn).
Vernersson (2006) furthermore suggests that the company should, within a few months following the merger, seek to offer its customers something new, that they could not offer before the merger. The approach should be to seek what each organization can contribute to the other in order to create synergies. Thus these goals and measures should be arranged proactively in the integration process, to effectively capture the synergies.
5.2 Communication Capability

"Companies which gave priority to communications were 13% more likely than average to have a successful deal. When we drilled down to understand this better, poor communications with own employees appeared to pose the greatest risk to deal success, more so than poor communication to the shareholders, suppliers, or customers." (Bruner, 2004)

![Communication Capability Diagram]

According to Engelson et al. (2005) it is important with extensive, candid communication about the status and progress of change, including repeated opportunities for employees to hear directly from change leaders and decision makers. Epstein (2004) says that over-communication is one of the common elements of success in post-merger integration.

5.2.1 Communicate Rules & Policies

In order to succeed with integration one shouldn’t just assume the acquired company will follow the parent company’s rules, policies, and procedures without being told what they are.
In fact, employees of the acquired company probably will have to be told a number of times before the message take hold as it should. (Pritchett, 1997)

5.2.2 Communication to All Stakeholders

According to Shrivastava (1985) an important merger activity involves communicating to all relevant stakeholders, without passing on competitive information, the impact of the acquisitions on their interests in the firm. Appelbaum et al. (2000) says that the information should be timely, as comprehensive as possible and the information should be repeated in many media.

Internal Communication

Bruner (2004) says that poor communications with own employees appears to pose the greatest risk to deal success. According to Epstein (2004) communication could possibly be the most important driver of success for human resources. Information on candidate selection processes and severance policies must be communicated quickly in order to prevent losing employees whose skills are vital to the new firm.

According to Engelson et al. (2005) it is important to have a powerful message to employees, and communicating the benefits of the deal, to generate enthusiasm for the combination.

External Communication

Merger communications should also address all the important external stakeholders, i.e. the financial markets, stockholders, suppliers, major customers, employees, labor unions, government agencies, the press, and the financial community. (Shrivastava, 1985) Communication is especially important in dealing with customers who must be notified of the direction of the new company and how it affects their relationship (Epstein, 2004). According to A. T. Kearney (2005b) internal preoccupation with merger activities may put attention to customers at risk and thus it is extra important to plan customer communications.

Bruner (2004) states that it is important for successful integration implementation that press relations are managed through the integration process. The reason for this is that the press influences perceptions of employees, customers, investors, and competitors. To “manage” press relations entails cooperating with journalist so that they understand the firm’s point of view.

5.2.3 Communicate the Vision, Goals and Challenges

It is not enough just to set goals, or even to make sure that those goals are well synchronized. According to Bruner (2004) the core of the communication effort should be to consistently inform the organization about its strategic direction, vision and financial aims for the future. This will align the interests of the organizations and lead to more effective integration. In doing so you effectively fight the FUD factors (fears, uncertainties and doubts) which have a negative effect on the integration process. It is important that senior managers consistently repeated strategic and financial aims in the public presentations about the merger.

According to Galpin & Herndon (2000) the first activity in communication is called “awareness building” and consists of a cooperate-wide communication of what is happening, which is aimed at linking integration initiatives with strategic plans. Pritchett (1997) says that the goals also have to be communicated to the people who will be responsible for their achievement. This calls for a lot of publicity. Management needs to keep the spotlight on the
targets that have been established. It is also important to provide regular, frequent, and specific feedback regarding progress toward goal achievement.

5.2.4 Quickly Communicating Top Management
Habek et al. (2000) suggests that putting the top management team in place quickly, and communicating them confidently and clearly, brings benefits that are otherwise extremely difficult to capture. The decision on who will run the company is the largest make-or-break decision in the early stages of the merger. The decision should be built on the sensitivities involved as well as the due diligence input.

Bruner (2004) says that it is vital that the board of directors and senior management of the new firm are announced at the press release of the merger. Failure to do this could create uncertainty and political positioning that tends to drive out regular business activities.

5.2.5 Quickly Communicating “Me” Issues
According to Galpin & Herndon (2000) the first topic to become a matter of great concern in a major change, among people at all levels of the organization, is personal uncertainty: the “me” issues. Will I lose my job? To whom will I report? Will I have to move? Employees and executives will keep asking these questions until they get answers, and time spent on worrying about these questions is time not being spent on the business. DiGeorgio (2002) also discusses this topic and states that decisions about key roles, reporting relationships, layoffs, and anything impacting careers should be made as quickly as possible and communicated.

5.2.6 Communication Plan
The communication plan is a document that defines the lines, content, method, and frequency of communications between the project manager, members of the project team, stakeholders, and management. (GSAM, 2003) According to Pritchett (1997) it is important to design an aggressive communication plan to get people the information they need and move at top speed to give them closure on the “me issues.” Habek et al. (2000) state that managing all communications in the merger integration phase demands that the plan is comprehensive and centrally-controlled. It should be no more than a blueprint and should not be seen as rigid. Goals need to be written down, content decided, and resources committed. Handling the communication as you go along is according to Bruner (2004) ineffective in informing the organization and can lead to a significant diminishment in the acquired organizations operational capability.

5.2.7 Firewalls
Most transactions are born in a climate of utter secrecy. Firewalls are barriers that prevent certain information from becoming known to specific parties in a merger. It composes of physical barriers such as separate offices for the deal developers and of secrecy agreements with the workforce. Effectively setting up firewalls will hinder the unwanted spread of information which can make the integration effort harder or even impossible. (Bruner, 2004)

5.2.8 Tailoring the Information
Controlling the flow of information from those involved in the deal to those learning about it is important. The information can be adjusted by lengthening the time of transmission, or by reducing the complexity of the message. The use of information flow control will effectively make the post merger integration effort easier, since it can make the acquired organization more stable and more aligned with the acquirer. (Bruner, 2004)
According to Epstein (2004) it is important that each stakeholder receives information that explains its role in the merger with a presentation that is tailored to them and consistent with the overall vision. DiGeorgio (2003) also discusses the importance of getting the big picture messages across, i.e. vision, goals, challenges etc, and that these messages are interpreted and translated by the team leaders so they will be relevant to the team or work group members. Galpin & Herndon (2000) state the importance of communicating integration specific information about what the merger means to relevant individuals.

5.2.9 Supporting Channels

Supporting channels are other mediums used for communicating the deal, e.g. news letters, formal meetings, internet etc. Using a wide variety of tools for the communication will make it easier to inform the organization about changes, since it will make it easier to handle the message. (Bruner, 2004) There are a number of effective communication elements that leaders can use such as forums, breakfasts, focus groups, major meetings etc. (DiGeorgio, 2002)

5.2.10 Continuous Information

Bruner (2004) states that over the course of the integration effort the communication must be continuous and not packed into the first few weeks following the deal. Failure to continuously communicate throughout the post merger phase will result in uncertainties in the organization which can halt the progress. DiGeorgio (2004) says that without consistency and proper message context, cones of confusion are created throughout the organisation.

The goal for the different processes used to implement an effective communication throughout the organization in the post-merger phase is to create a significant, constant and consistent flow of information to combat all destructive factors. It should be accomplished by building a strong confidence within the organization for the merger, where each constituency receives information that explains its role in the process and the merged company. (Epstein, 2004)

5.2.11 Two Way Channel

According to Galpin & Herndon (2000) there should exist a two-way channel of communication in the integration process that can provide clear guidance for the employees and identify the difficulties in the efforts. The organization should be given coherent directives for operations for the cultural integration to be effective and there must be a channel for the employees to communicate difficulties.

Effective two-way communication is needed for success in post-merger integration. This means really listening to what is going on in the organisation. Ways of achieving this could be through workshops with managers, meetings, hosted forums, focus groups etc. (DiGeorgio, 2003).
5.3 Structural Capability

“The first challenges in the planning process are to determine the right team structure and roles, select the right people for these roles, and decide to what degree you will involve line management” (Adolph et al., 2001)

An efficient and practical structure for the project group consists of three different layers: a steering committee, program office, and a variety of integration teams. Assuming that the appropriate people (in terms of personality, management ability, technical talent, and time to devote to the process) are assigned to these slots, the group is in a position to do a good job of integration management. (Pritchett, 1997)

5.3.1 Steering Committee

Typically, the steering committee is small, consisting of two to four individuals, all of whom are senior-level people. The focus of this group is to provide direction to the integration effort as it relates to strategy and policy. While not committed full-time to the process, this group should meet on a regularly scheduled basis to approve integration plans and review progress. The steering committee will also need to act as the final decision point for resource allocation and prioritizing of the recommended initiatives. (Pritchett, 1997) The steering committee is responsible for developing guiding principles, setting overall direction and targets, implementing top-down communication and focusing on continuing operations (A. T. Kearney, 2005b). According to DiGeorgio (2003) the steering committee usually reports directly to the board or the executive committee for the merger company.
5.3.2 **Program Office**

Habek et al. (2000) say that a program office, established before the deal closes, is an essential component of successful mergers. A program office should ensure that guiding principles and general strategy outlined by top management are translated into measurable targets and executable tasks. During the integration process it should also monitor progress, highlight potential problems, and co-ordinate change management. According to A. T. Kearney (2005b) they are also responsible for risk management, developing the communications plan, implementing merger planning, integration and reporting, and coordinating the process and scope activities.

The program office, consisting of some three to five full-time people, is the real workhorse responsible for driving the integration forward and keeping good project management discipline in place. One member of this team should be designated as the integration project leader and given the overall responsibility for the project’s progress. Under the day-to-day direction of the integration project leader, the program office has responsibility for coordinating all of the analyses and recommendations for action that the task-force teams generate. As a whole, this team’s purpose is to provide the guidance and day-to-day decision making that will allow the integration process to move forward on a timely basis. The program office is ultimately accountable to the steering committee. (Pritchett, 1997)

5.3.3 **Integration Teams**

Commitment to a successful PMI must be demonstrated through the structure, leadership, and composition of the integration team. The team must be a full-time function with ample resources and strong leadership. An important factor for the integration team is that they must work to eliminate any culture clash in the new organization. (Epstein, 2004)

These units are ordinarily comprised of three to five people and are formed to address specific organizational issues needing attention because of the merger/acquisition event. They can be either resource driven, such as finance, human resources, information technology, and so on, or operations driven according to business unit, product line, or perhaps geographic location. The resource-driven teams will have tasks of their own to complete but also will need to support the operating groups in the completion of their respective tasks. The task-force teams commonly have individuals working both full-time and part-time on the integration and should have one person designated as the team leader. The variety of task-force teams take their marching orders from, and report to, the program office. (Pritchett, 1997)

**Communication Team**

In a study by Kaplan & Norton (2005) it is shown that most companies have great difficulty in communicating the management’s strategy for the new firm throughout the organization. Having specific teams who are responsible for this communication within the organization will greatly improve the effectiveness of the communication and speed up the integration effort, in addition to making success more plausible. The study explains how OSM’s (Office Strategy Management), which is groups within the organization who are responsible for managing the strategic implementation, can align all the units and establish coherence throughout the company. Management can by using OSM’s effectively control every unit within the organization and thus steer the company in accordance to its strategic plan.
IT Integration Team

Having specific teams focused on integration IT will facilitate successful IT integration. Integration Competence Centers (ICCs) consist of people that are working with integration projects with a focus on integrating IT. There are different approaches to running an ICC. For example, a central services approach, in which the ICC acts as a full-service hub that does most of the integration work for the company, or a shared services model, in which the ICC serves as a consultant or help desk for project teams that continue to do the integration work themselves. Some important competencies in the IT integration team include: (1) someone with a good overall understanding of middleware and the applications within the existing infrastructure (2) someone with the deep skills of integration applications, web services, application program interfaces, and how to develop them (3) a technical whiz with the deepest understanding of all the intricacies in the integration software etc. (Gerard, 2004)

5.3.4 Separate Integration Structure

A project group should be formed to manage the transition, and it should operate as a parallel organization focusing purely on the integration process. This organization needs to be adequately staffed, with people’s roles and responsibilities clearly defined. (Pritchett, 1997) The integration teams should follow a project-management approach where the project teams are separate from the core business (Epstein, 2004).

Merger integration is usually a massive undertaking and could involve literally thousands of people when large firms are involved. For this reason a separate transition structure is required. Experience with integration structures suggests that they should be formed early in the process, well before the change in control. (DiGeorgio, 2003)

5.3.5 Jointly Staffed

If it is a true merger situation, the steering committee may benefit from equally balanced representation from the two organizations. If it’s better defined as an acquisition situation, the group may have a majority, or even all of its members, coming from the acquirer. But representation from both organizations helps ensure that key financial, operational, or cultural aspects are not overlooked during the integration process. (Pritchett, 1997)

The program office should also include members of both organizations. A fairly balanced representation generally fosters better buy-in from the people in the two organizations while also improving the odds that plans for integration can be implemented effectively. (Pritchett, 1997) Galpin & Herndon (2000) elaborate on this subject and state that the reality is that deal synergies often prove elusive and difficult to capture unless each organization has a thorough understanding and appreciation of its counterpart’s business processes, technology, and core capabilities. This level of understanding comes only when people are brought together to work on business issues.

5.3.6 Working Full Time

According to Tetenbaum (1999) the integration manager is vital for the success of the implementation phase of the integration process, yet in many companies the individual selected for this position already has a full plate and is expected to take on this assignment as an addition to his or her other responsibilities. Given the complexity of the task and the amount of time it consumes, integration management is a full-time job that needs to be recognized as a distinct business function just like operations, marketing or finance.
DiGeorgio (2003) concludes that the transition teams should also consist of people working full time in order to succeed with post merger integration. According to Galpin & Herndon (2000) the integration project’s core team (program office) assumes primary day-to-day responsibilities for coordinating the task forces and the overall process and in order to manage this role effectively, i.e. communication, planning, establishing task-forces etc., a full-time function is required.

5.3.7 Transition Team Leadership
According to DiGeorgio (2003) the leaders of the transition teams should be the leaders of the new organisation after the combination. For example, the person heading up the IT transition team should be the new head of IT after the merger. This will create continuity, rather than second-guessing and restarting of engines, if the same person is in charge of the transition teams before the change and the new organisation after. Engelson et al. (2005) also state the importance of appointing key leaders as transition managers or task force members to facilitate successful integration.

According to Shrivastava (1985) a strategy for achieving integration should begin before the merger is completed. In the pre-merger phase, it is advisable to “seed” integration by making those managers who will be responsible for running the acquired business participate in acquisitions analysis and decision-making in the integration process. This is easily done by involving these managers in the acquisition screening process and asking them to work along with managers in the target business to develop operating plans for the post-merger period.

5.3.8 Integration Leadership Assessment
DiGeorgio (2003) says that it is critical to select the right integration manager. The selection process might involve using competence models describing the most important skills, knowledge and characteristics of a good integration manager. According to Galpin & Herndon (2000) it is more important that the integration manager has knowledge of the business and an ability to lead than that he or she has a strong technical background. Typically, successful integration managers have been vice presidents, directors, managers, and, in some cases, internal consultants with a strong operations background. Epstein (2004) also mentions that the PMI manager, who should be ambitious, confident, and a fully dedicated senior executive, also should disavow all biases stemming from the leader’s former company.

Given the importance of the integration teams, the selection of the right task force leaders becomes mission-critical. They should be senior enough to have the authority that gets things done but still have technical expertise and credibility in their area. (Galpin & Herndon, 2000) According to Tetenbaum (1999) the integration team leader should be someone working full-time in the position and an individual with high energy and resilience in order to handle all the day-to-day decisions. The integration leader should be actively engaged in the integration process from the earliest discussions throughout the due diligence phase so that he or she is intimately in tune with the business case: the strategic intent, the strategic levers, and the critical success factors.

5.3.9 Individual Accountability & Responsibility
In order to succeed with the integration Pritchett (1997) mentions the importance of making sure one person is put in charge of the integration effort. Assigning individual accountability and responsibility is the best way to get a strong action orientation in support of the integration project. Some organizations choose one person from each organization to serve as
co-leaders in the process. While this may seem equitable, it can lead to confusion as to who has formal sign-off over a given task or activity, or who is ultimately responsible for the success or failure of the transition effort. Generally it’s a good idea to make sure that individuals from both organizations are present on the team, but it works best when only one person is in charge.

DiGeorgio (2004) says that leaders who have a significant impact on the success of the integration need to be held accountable. They need to have a significant amount of their bonus tied to measurable success, the easiest of which to measure is the value of stock options. Incentives need to be tailored to both retain and motivate the managers and professionals to achieve the goals set. It is also important that those organisations influencing the decision to buy, such as investment bankers and the like, have skin the game too.

5.3.10 Team Building Activities

According to Engelson et al. (2005) a practice that leads to successful M&A integration is providing teambuilding activities for developing effective post-merger teams. DiGeorgio (2003) says team building should go on throughout the duration of the transition structure, since keeping everyone together and pulling in the right direction is critical, and there is little room for error. Team building should start early in the integration process to clarify roles and responsibilities, communicate and reinforce expectations, set standards, and get the teams off to a flying start.
5.4 Project Management Capability

“Unless you employ a carefully orchestrated project management approach, it is almost impossible to get through the integration without damaging the potential of the deal.” (Pritchett, 1997)

Bruner (2004) states that it is important to manage the integration process as a project. Viewing the integration effort as a project means that it would have the finite goals and milestones all apart from the ordinary course of business. According to Pritchett (1997) good integration management is characterized by discipline, focus, and dedicated resources. A merger is a highly charged political climate where people operate with very different, personalized agendas. There are loads of pressure points, conflicting points of view, and management distractions. An integration project management approach can for these reasons be very important. The difference between a project and daily operations are many. The time frame of a project has a clear start and end date, while operations are ongoing. The resources in projects constantly change, while in operations they are usually optimized. In projects there is a need to consolidate risks, opposite to daily operations where there is a need to diversify risks. Contrary to daily operations, the success is not based on constant review, but instead it is based on the final results.
5.4.1 Capturing Associated Costs

Costs information is needed to determine whether the project can be accomplished within the available budget. The important items to include in the spending plan are the costs for accomplishing the different tasks, the total cost of the project, and rate of spending for the different tasks and the whole project. This information will provide a baseline for the project manager to monitor and manage project costs. (GSAM, 2003)

As soon as you begin to deploy resources around a task, new information surfaces that allows the people involved to gain a better assessment of the costs, opportunities, upcoming problems, and most appropriate time frames for the integration. A key assignment for the task-force teams will be capturing all associated costs of the integration and determining how they should be classified. Specifically, should they be handled as one-time integration costs or as costs associated with ongoing operations? It is critical that the financial implications of the merger or acquisition be accounted for properly so that an appropriate assessment of future performance can be made. (Pritchett, 1997)

5.4.2 Resource Allocation Process

Projects cannot be performed without resources. The primary resource is usually labor. Other resources may include equipment, materials, transportation, offices, and other facilities such as test, manufacturing, printing, etc. Resource planning should identify what resources are needed in what quantity, and when and how long they are needed. (GSAM, 2003)

The financials of the deal need to be reviewed by task-force teams as they assess the extent of integration that should occur. This leads to better prioritization of key activities and the most appropriate allocation of resources. Both immediate and long-term resource requirements should be determined. Some skills or resources may not be available and will either need to be acquired or sourced before parts of the integration plan may proceed. (Pritchett, 1997)

5.4.3 Integration Monitoring & Reporting

According to GSAM (2003) controlling processes are ongoing throughout most of the project. They include verifying that the project is proceeding according to plan or determining where and how much a deviation is occurring. They are absolutely essential to the progress and success of the project. They include:

- Monitoring, measuring, and reporting the performance of project activities.
- Verifying the project is continuing within scope.
- Controlling changes to the project scope.

Organizations that succeed in establishing sufficient mechanisms for tracking and reporting on the results will better determine whether the transition is proceeding according to plan. It will also help ensure a good flow of communication, involve more people in the integration process and send a message about the new company’s culture. (Galpin & Herndon, 2000)

According to Pritchett (1997) the program office must work with the integration teams to monitor the integration against schedule and budget as the integration process proceeds. This allows the program office to adjust resources as necessary and, of course, enables it to keep the steering committee informed of progress in merging the two organizations. Status reporting is an important discipline. Tight control should be exercised to ensure that the
various task-force leaders submit their updates on time, according to a pre-established format, and with a thorough account of the teams’ work to date.

5.4.4 Learning Mechanisms

The final phase of the integration process involves the handoff from the merger integration project group to the appropriate operating groups. At this time, it’s also important to assess the quality of the transition effort to determine what changes might be appropriate during the next integration. If a firm plans additional mergers and acquisitions as an active business strategy, it should conduct a formal debriefing at the end of the integration process as a way of further developing its competencies in the merger-integration process. (Pritchett, 1997)

According to Ashkenas et al. (1998) it is important to continue developing common tools, best practices, processes in order to capitalize on success and gather long-term knowledge within the organization.

5.4.5 Alignment of Integration Efforts with Strategy

According to Jonk & Ungerath (2006) there is sadly often a strong disconnect between pre-merger strategic intent and post-merger management of hundreds of integration projects under the speed-obsessed eye of capital markets. As a result it is essential to effectively translate strategic priorities into specific requirements for the different parts of the company’s business, and then ask to what extent integration, as opposed to business optimization, contributes to achieving these requirements. It is then possible to evaluate this contribution against the potential synergy benefits, and required efforts to gain them, of integration. The result is that certain integration efforts are postponed though they represent cost savings because they aren’t key drivers of competitive advantage.

In the initial stage it is important to lay the groundwork for successful integration. The steering committee focuses on building the project structure to link the objectives of the integration with the strategic intent of the merger. The steering committee and program office work together to create an integration strategy that identifies critical content areas where task-force teams will focus their efforts. Task-force teams are also identified, and appropriate operating outlines are developed for each team. (Pritchett, 1997)

5.4.6 Standardized Integration Plan

There must be a well reasoned plan for the integration, where each part is given its optimal time allocation at the right stages of the integration. There should be a plan for the integration, however a final goal for the integration may be hard to maintain, since the environment is constantly changing. Therefore it is important to continuously revise the integration plan to make it relevant to the changing prerequisites for operations. The integration process may eventually fade away as it becomes more about effectively running operations and less about integrating them. (Vernersson, 2006)

Integration plans are a key factor in achieving the desired synergies in the integration. The company should have developed procedures within their organization to streamline the process: what functions must be involved, how and when they should be involved, which people are responsible for due diligence, and which for planning and implementation. They document the process through a series of checklists that serve as reminders of tasks to be done, deadlines, and people responsible. If an organization does not have a standardized plan, the integration team should collaborate with important agents in the merger process to develop one. (Tetenbaum, 1995)
5.4.7 100-day Plan
There is a good agreement that the first 100 days after a major change sets the tone, signals the troops about the real direction of the organisation and its vitality. To get off to a fast start, high-level game plans should be ready at the business unit and function level. The teams at the top of these units should have thought through future mission, values, strategies and objectives for the first year. The 100-day plan guides the business unit and staff through the documentation of important activities, e.g. key decisions to be made, game plans to retain customers, infrastructure, organizational structure, communication issues etc. (DiGeorgio, 2002) According to Vernersson (2006) it is important to have a timetable that sets a high tempo in the integration. It is important to set specific dates for completion to effectively achieve successful post merger integration.

The steering committee should establish the overall schedule for the integration project, along with the various timelines denoting when certain integration activities should take place (Pritchett, 1997).

5.4.8 Top Management Commitment
Without sufficient time, resources, and tools the possibility for effective post-merger integration greatly diminishes (DiGeorgio, 2002). A strategy for growth through mergers is frequently carefully conceived but poorly implemented. Companies often invest heavily in due diligence, then get remarkably careful in terms of their willingness to spend on the integration effort. This helps explain why so many good deals go bad. The economics argue strongly in favour of allocating sufficient resources, money and people, to support a sophisticated integration process. (Pritchett, 1997)

5.4.9 Risk Management
“...without a way to recognize and embrace these risks instead of ducking them, the chance of achieving the high returns your merger promises will be reduced.” (Habeck et al., 2000)

Risk Assessment
The first step towards success is identifying all risks in a risk assessment that demands an honest, objective view of the situation and the obstacles that will be faced. The different projects should then be prioritized in accordance to their business criticality and complexity. Business criticality is the impact that the project has on the merger, while the complexity is a function of the knowledge and resources that can be drawn together to the project in combination with the magnitude of work to be accomplished and the level of detail involved. The risks should then be categorized by their urgency, using a simple one dimensioned system of high, medium and low risks. (Habeck et al., 2000)

Risk Management Plan
Knowing what risks the project faces and managing those risks is essential to successful completion of the project. While some problems come up unexpectedly, most risks can be foreseen and prepared for. A description of possible risks, based on the risk assessment, and a plan to avoid or minimize those risks is an essential part of the overall program plan. (GSAM, 2003) Habeck et al. (2000) also discusses the importance of including the risks, as well as their underlying assumptions and related issues, in project plans.
**Permanent Tracking Process**

Habeck et al. (2000) mentions the importance of monitoring the integration process diligently. According to Vernersson (2006), the risk involved in the merger should be actively managed using systems for classification and tracking. Furthermore, the integration team should keep a continuous log assessing these risks, where someone needs to be responsible for the oversight and where the development must be transparent as well as structured. Habeck et al. (2000) describes that clear assignment of risk ownership and action responsibilities eliminates confusion.
5.5 Organizational Capability

“Often during a merger or acquisition, even when key personnel stay on board, they lose their commitment, especially when the environment becomes unstable, uncertain or changes dramatically, as is inevitably the case during M&As.” (Galpin & Herndon, 2000)

Figure 12: Organizational Capability

Tetenbaum (1995) defines organizational capability, as having the right people in the right position to effectively perform the tasks that are needed to achieve the new organization’s goals. In order to build organizational capability much of the integration team’s work, in collaboration with the HR staff, focuses on the three Rs: retention, riffing and recruitment. Riffing is important in reducing redundancies and achieving cost savings, recruitment is important to fill in the gap but retention is at the core of the effort when it comes to integration. According to Engelson et al. (2005) one of the key success factors in post merger integration is to make special efforts to retain key employees, staff the new organization intelligently, and treat those whose jobs may be eliminated in a fair and equitable manner.

5.5.1 Retention of Talent

According to Engelson et al. (2005) important ingredients for successful integration is designing a plan, or make special efforts, to retain desired talent. Galpin & Herndon (2000) say that developing a retention plan, based on an understanding on what motivates people, is a good approach to avoiding loosing key people and the damaging effects thereof.

Vernersson (2006) says that an assessment, in the due diligence, makes it possible identify the key employees that are important to retain in the merger early in the process. In a public deal this becomes hard, since the acquirer is very limited in the possibility to assess the target beforehand; they must instead seek to gather this information from the current management.
HR needs to ensure that the appropriate people are retained and that the incentives offered to the personnel are reasonable. Retention of talent can be achieved by special compensations, bonuses, rewards or enticements in the work situation, career area or financial area. In addition to retaining the "right" people, it is important to find the right roles for them. (Tetenbaum, 1995)

5.5.2 Staff Assessment & Selection

In personnel decisions, employees of both companies must be judged by the same standards and the candidate selection process based on merit rather than as a basis for a power struggle (Epstein, 2004). Cartwright & Cooper (1992) discuss the importance of introducing a formal, objective assessment of competence which is considered fair and less political by employees. Apart from guiding staffing decisions, such a process would also provide the acquirer/new organization with the opportunity to uncover any previously hidden talents and assess future training needs. This issue is also emphasized by Bruner (2004) who states that the selection process should be transparent, fair, and consistent and all decisions made should be based on accurate and comprehensive data.

According to Galpin & Herndon (2000) the key components of staffing concern creation, approval and support of the processes for determining organizational structure and staffing decisions. This ensures that the “best player” wins the job thus minimizing favouritism and cronyism. Thus, there is a need for a common staffing, hiring, and promotion process that can facilitate the alignment of the cultures. The corporate culture is in part much a factor of the people inside the organization and thus there is a need for a single recruitment and promotion strategy that adheres to the intended strategy for the merged company.

5.5.3 Riffing

In building organizational capability, HR staff and integration team members must conduct headcount as well as forecast and plan reductions, separations and relocations. The riffing process is particularly difficult and complex for everyone involved and it is therefore critical that the process is handled in the appropriate way. The way terminated employees are treated during the downsizing and are supported afterwards has a dramatic effect on remaining staffs’ attitudes. (Tetenbaum, 1995) An important factor of successful integration is to provide outplacement services, severance packages, job-location assistance, or other services to support displaced workers. It is also important that there is a lay-off policy that is seen as acceptable by the employees. (Engelson et al., 2005)

5.5.4 Top Leadership Assessment & Selection

Vernersson (2006) emphasises the importance of a leadership assessment in the due diligence phase as a cost effective tool for achieving successful post merger integration. This makes it possible to immediately target the people you want to retain and early communicate the intentions. Habek et al. (2003) also state that the top managerial talent in the combined organization should be identified in the business due diligence.

The selection issue is most important when combining large organisations where there is a significantly different structure in the combined organisation, and there are many more executives and managers than there are jobs. If handled badly, it is an opportunity to demonstrate favouritism and that politics are alive and well in the combined organisation. If handled well, this is an opportunity to send clear messages about direction, the future and how things are going to be different. Nothing top management does in the early stages of a
combination will do more to signal the troops about the ‘real future’ than these selections. (DiGeorgio, 2003)

5.5.5 Redefine Responsibilities & Reporting Relationships
Historically, the most unsuccessful mergers and acquisitions have suffered from unclear relationships and a tendency to change already vague, poorly defined reporting relationships several times in the first year. Immediately after the deal has been consummated, all administration of management in the acquired company needs a redefinition of their authority, reporting relationships, and accountability. Additionally, they should be given a crystal-clear understanding of the standards of performance they will be expected to achieve. (Pritchett, 1997) According to A. T. Kearney (2005b) it is essential to clearly allocate management responsibilities quickly after closing the deal.

5.5.6 Focus on Involvement
It is important to meaningfully involve employees in decisions and plans that affect them in the change efforts and initiatives beginning to end, including involving key organization leaders, and making appropriate use of transition teams and cross-company task forces. (Engelson et. al., 2005) According to Ashkenas et al. (1998) it is important also to visibly involve senior management in the integration process.

Bruner (2004) says that engagement of employees with the integration process builds commitment to the new organization faster than merely receiving orders. This could include involvement at relatively junior levels and entail identifying integration issues and resolving them.

5.5.7 Focus on Customers
According to a CEO of a medical products and services company one of the best decisions he made in the merger integration process was to maintain the focus on customer service, even when it meant slowing down the rush to exploit synergies. If they kept the customers satisfied through the integration process, they reasoned, it was worth delaying the savings for a couple of months. (Adolph et al., 2001)

As mentioned earlier there is a need for clear customer oriented goals in the integration effort; however Galpin & Herndon (2000) explains how it is necessary for the organization to become introvert during the merger. This need can worsen the organizations capability of handling customers, in the time following the merger, and therefore it is important to assign middle managers the responsibility for staying focused on the market. The middle manager must put particular attention to maintaining the standards of sales and services that their customers expect, and to installing any mechanisms that are needed to sustain good relationships with customers.

5.6 Cultural Capability

"Most acquiring firms actually lose money on the acquisition. The research also shows that this is primarily due to the failure to effectively assess and integrate the cultures of the companies involved in the merger or acquisition.” (Carleton & Lineberry, 2004)
According to Habek et al. (2000) it is vital to develop the strategy for cultural integration before the merger. Issues that must be decided are whether or not to impose one of the cultures, leave them separate, or create a compound culture. Before imposing a culture, it is of course important that the new culture is better than the one it replaces.

5.6.1 Cultural Due Diligence

“...Cultural Due Diligence (CDD) is a diagnostic process conducted to ascertain the degree of cultural alignment or compatibility between companies that are party to a merger or acquisition.” (Carleton & Lineberry, 2004)

Due diligence means in the context of mergers and acquisitions, ”a series of exploratory activities used in evaluation of a target company prior to finalization of the merger or acquisition” (Clemente & Grenspan, 1998). Traditionally the due diligence process has not included a cultural assessment that could highlight the potential difficulties and the general compatibility of the cultures. In the light of the potential impact that the cultural integration may have in the integration process, it seems natural to include such an evaluation in the due diligence. The CDD process should be composed of three main steps that encompass this process, a self assessment, a target assessment and a preliminary cultural integration plan.

Cultural Assessment of Acquirer

A self assessment is important according to Carleton & Lineberry (2004) because most companies do not have a good picture of their own organization and rather bases this part on assumptions. Having a good understanding of your own organization creates a solid base for the cultural assessment of the target.
Cultural Assessment of Target
A detailed cultural assessment of the target should be made with the framework used in the self assessment. Identifying the main prerequisites of the targets organization creates an understanding of what should be changed and what should remain after the merger. (Carleton & Lineberry, 2004)

Decide on the new Culture
It is important to actively decide on what the new culture should be. If a compound culture is chosen in the strategy this process involves choosing a new set of beliefs, assumptions and rules of behavior that exploit the strengths of both the parent companies to are used to create a new and better culture. Creating a “compound” culture could perhaps be the most difficult, but in the end the most valuable, approach to resolving cultural differences. (Habeck et al., 2000)

According to Vernersson (2006), when the culture strategy is formed you need to identify what the keys to successfully integrate the different cultures are. It will commence with the key factors that have made the respective company successful, and proceed with those that are thought to make it successful in the future.

Assess Cultural Compatibility
Engelson et al. (2000) point out that continuously analyzing the cultural differences of the two organizations to improve culture “fit”, and at the same time identifying ‘shared values’ that characterize the desired culture of the new organization, are change practice that lead to successful M&A integration. According to Carleton & Lineberry (2004) the approach for succeeding with the cultural integration is to first establish what the cultural differences are, and then assess how each can contribute to each other.

Cultural Integration Plan
Carleton & Lineberry (2004) state that it is necessary to have a well thought trough cultural integration plan that can be implemented, which is based on this research carried out in the due diligence phase and the identification of differences. The plan should consist of a specification of integration/alignment activities, implementation sequence and evaluation measures. Other areas that should be covered in the integration plan include key cultural synergies between the companies, areas of probable culture clash between the organizations, the scope of the time and resources required to accomplish integration etc.

5.6.2 Cultural Integration Activities
The components of organizational culture can be isolated, and yet no one component by itself fully accounts for the culture of any organization. In culture integration it is possible to actively manage culture through viewing a culture as segmented into different processes, and thus it becomes possible to establish an operational description of culture. (Galpin & Herndon, 2000)

Rules and Policies
According to Galpin & Herndon (2000) it is very important in the integration effort that the rules and policies adhere to the integration strategy. It is necessary because the employees within the organization need to be given the actual possibility, to work in the intended manner and direction of the integration effort. Each integration team should conduct a structured
evaluation of all policies and practices in use at both the organizations. A recommendation should be made for each area with respect to policies that will be adopted, adapted, changed entirely or blended with other policies in the interest of complete alignment and reinforcement of the desired operations and culture.

The standardization of policies and procedures for the new entity forms an important part of the integration process. Cultural integration through the standardization of procedures and policies creates a tool for downward communication in the hierarchy and forms part of the intra-organizational communication system. (Lindgren, 1982)

Training and Development
According to Galpin & Herndon (2000) it is important to implement changes in the internal corporate training and development, to make them adhere to the intended direction and strategy of the merged company. These changes must be aligned with all other integration efforts in order to create the competency in the organization to implement the new processes and procedures.

Some people, even some of the best talent, need additional training to measure up to the new demands they will encounter. The acquirer needs to be highly sensitive to where incumbent personnel will in all likelihood need training or coaching. (Pritchett, 1997)

Ceremonies and Events
According to Galpin & Herndon (2000) the establishment of new ceremonies and events, for promotion of the new ways of operations, can greatly facilitate the cultural integration. According to Bruner (2004) celebrating victories after a success helps create momentum for the integration process, building confidence in the capacity of the entire organization to successfully achieve the merger goals.

Leadership behavior
According to Galpin & Herndon (2000) the cultural integration process should contain an element of navigating the leadership behavior in accordance with the strategic direction that is intended for the merged company. This navigation should be composed of rewards and penalties that could illustrate the desired behavior, and which can create an incentive to adhere. Habeck et al. (2004) also mentions the importance of making sure the leadership team acts as role models to continually reinforce the desired behavior and at the same time dealing firmly with people who try to undermine the new direction.

Rewards and recognition
According to Galpin & Herndon (2000) simply communicating the desired changes will have little effect by itself, there need for some measures in the integration process that creates incentives for the organization to adhere to the new procedures and processes. This system of rewarding and penalizing should be tightly connected to the goals that have been set for the integration, since there is a need to emphasize the goals rather than the procedures. Habeck et al. (2004) also addresses the importance of setting up a system of incentives and penalties to enforce and encourage the new norms and processes. In the instance that the acquirer seeks to extend its culture to the target, it is important that incumbent employees adapt to the culture changes. Those who do not may threaten the success of the integration effort and it can therefore be necessary to release those who cannot culturally adjust (Bruner, 2004).
Physical environment
According to Galpin & Herndon (2000) one of the primary procedures for integrating the cultures in a merger, is the actual physical allocation of people to the same offices. When the organization is being physically integrated in their environment, the cultural alignment will be achieved much more rapidly.

Organizational structure
According to Galpin & Herndon (2000) the operational change that is desired in the integration process needs to be accompanied by a new organization structure that reinforces this transformation, e.g. eliminate management layers, centralize or decentralize work as needed, combine overlapping divisions etc. The goal of the cultural integration may be impossible given the organization structure, e.g. if you want to create an organic organization there must not be a great distance between different departments.
5.7 IT Capability

“Information technology planning is critical to successful corporate mergers. Executives who underestimate or disregard the costs and time associated with merging computer applications, infrastructure or IT organizations will face unpleasant surprises.” (McDonald, 2003)

In this thesis the focus lies on the IT strategies ‘best of breed’ and ‘disconnection’ since these are the only strategies where actual integration takes place (see chapter 3.5.2: IT Strategy). In practice, merging companies could mix these strategies, i.e. some parts of the IT system could maintain separate while other parts will be connected or replaced.

5.7.1 IT Assessment of Acquirer and Target

Important parts of pre-merger planning are assessing the underlying technology infrastructures of the acquirer and target, and developing profiles of the IT organization including staffing, operations, business applications and the processes they support. This procedure creates an inventory that supports comparison of the two companies' IT resources. The more structured and detailed the process is, the better. (MacDonald, 2003) According to Bruner (2004) due diligence in IT should encompass hardware, software, communications and networks, technical support, end-user computing, and human resources, including training. He also mentions that it is important to evaluate the effectiveness of the target’s IT department in the due diligence phase.
5.7.2 Assess IT Compatibility

Bruner (2004) says that it is important to assess the IT compatibility between the target and buyer. According to Menge (2005) technical incompatibility, such as differences in programming languages, platforms etc. can have a negative influence on the integration of IT.

Differences in data architecture or technical architecture may require bridging or conversion efforts to create the integrated IT environment. If there are fundamental underlying differences in e.g. data structures between the two companies' customer information databases IT must understand how those differences will impact the timing and cost of the merger. Last-minute rewrites of a system or database module because of unexpected data incompatibilities are things to avoid! (MacDonald, 2003)

5.7.3 Technical Integration Tools

Integration on a technical level can nowadays largely be solved using integration tools such as middleware, which is basically any software that facilitates communications between two or more software systems (Holmström, 2005). According to Linthicum (2000) middleware, e.g. message brokers, RPC, web services etc. is the best and only solution that allows different applications to communicate with each other.

5.7.4 Open Standard Software

An essential part of IT is that it needs to be flexible and responsive to changing requirements. If a merging partner uses open standard systems chances are greater that the other party uses similar or compatible systems, making integration easier. Standards are important because they are accepted by multiple vendors, thereby increasing the likelihood that a collection of systems from different sources will be able to interoperate. (Holmström, 2005)

Conversely, if the company uses propriety software for a lot of processes, the chances for easy integration becomes smaller. The technical documentation of such a system is also more important, because it is often the only source of technical information available for implementing integration solutions. (Chang et al., 2002)

5.7.5 Enterprise Models & Documentation

Enterprise models have a significant role in terms of helping to define and understand integration requirements and to support solution implementation by sharing and understanding the enterprise structure and behaviour. One of the prime goals of enterprise models is to support the analysis of an enterprise and thus make better decisions about enterprise operations and organisations. Examples of enterprise models are business process models, business models, data models, organizational models etc. (Holmström, 2005) Mendoza et al. (2006) also define the existence of a common, documented up-to-date data model as a critical success factor for IT integration. The organization must have a business data model to guarantee, for example, consistent data and secure transactions.

The use of good documentation reduces the IT complexity and thus has a positive impact on a merger partners IT integration capability. (Menge, 2005) According to Medoza et al. (2006) it is important that the documentation is updated on the existing applications in the organization. Technical documentation is necessary since it records the engineering process and helps software engineers know where they are, what they have produced, and how it was done (Holmström, 2005).
It could also be recommended taking the time to develop a data dictionary or cross-reference guide to support the translation of the business and technical terminology between the two organizations. (MacDonald, 2003) These data dictionaries are also called ontologies and are basically a conceptual information model that describes the things that exist in a domain: concepts, properties, facts, rules and relationships. For example, an application that requests customer data must agree on what “customer” is, with the application that provides it. (Holmström, 2005)

5.7.6 Clear IT Vision
Having a clear vision of the future of IT systems helps in two ways. Firstly, it sets the direction for the integration projects because it shows the gap between how the IT “is” and how the IT “should be”. Secondly, a clear IT vision can help align the direction of the IT integration effort with the merger goals. Since integration capability is about reaching those goals, a clear vision has a positive effect on the IT integration capability of the company. (Chang et al., 2002)

According to MacDonald (2003) it is important to create a vision of post-merger business applications, IT infrastructure and the IT organization. The business needs to identify and close any "gaps" between how IT operates today and how it must operate to support the business’ vision of the post-merger company.

5.7.7 Common System Platform
Bruner (2004) says that a common IT system platform can be vital to the establishment of a newly integrated organization. Systems are often the pets of the respective organizations, reflecting their values and cultures. Integration teams often debate over the selection of one system over the other or even the continued operation in parallel of both systems.

According to Sias & Åberg (2004) the chosen system platform should be the better of the two existing systems. Trying to replace existing systems with more modern ones can distract management from the already demanding requirements of the merger. The chosen platform must have technology that not only is sustainable over the long term but also is able to handle the additional customers that integration brings and fit into the merged company’s goals for the overall system architecture. At the same time, the platform must not be so complex that the company will lack the skills sets and resources to support and develop it.

5.7.8 IT Department Effectiveness
According to Chang et al. (2002) the IT integration capability depends a lot on the IT department, its attributes and how it is managed. The availability of enough high qualified, competent personnel obviously makes a positive contribution. An important factor influencing merger success is that the IT professionals are involved and informed about the changes in hand. Only when the IT department participates in the planning process is it realistic to expect a good project outcome.

5.7.9 IT Integration Plan
This plan details how the post-merger IT vision is achieved. It should contain a baseline with supporting business cases addressing costs, benefits, schedules and required resources. The overall plan could be divided into multiple projects with measurable, deliverable milestones, none of which should take longer than six months to accomplish. It is vital to deliver measurable benefits as soon as possible. Some integration projects will impact individuals
across the board in one or both organizations, while others might impact only one particular area of the business. (MacDonald, 2003)

5.7.10 Cost/Benefit Justification
It is important with a cost/benefit justification of the investment required in IT integration projects because they call for a high investment in terms of hardware, software, and experts, which requires a quantitative justification for the change. Besides considering the cost/benefits of the project this could involve the existence of time estimation for the return of investment. (Mendoza et al., 2006)

5.7.11 Training & Development
Mendoza et al. (2006) say that the existence of a training plan for users and the staff for assigning (in the case of high integration level applications) the components of the chain (distributors, suppliers, customers) is important. Besides having a plan for internal and external training time must also be set aside and planned for the training.
6 Interviews

6.1 Fredrik Vernersson, Principal A. T. Kearney

Here follows a summary of the interview with Fredrik Vernersson, a principal at A.T. Kearney, regarding how a merger integration capability can be assessed. The interview was used both for the purpose of validating the established theoretical framework, but also as a possibility to find missing parts. The interview carried out at A. T. Kearney’s headquarters in Uppsala, on the 21st of April.

6.1.1 Establish Clear Goals and Manage Expectations

According to the respondent this is the most central aspect of the merger. There should be an established clear strategy and vision. With emphasis on clear, since the business rational should be eminent to all involved. Thus, it is important to look for a clear vision in the merger, because the vision will be the foundation for setting the goals in the post-merger integration. The first among the post-merger integration goals are the early wins which present themselves in the early stages of the integration process. Hence, the goals need to have a time aspect during the integration. Some important questions to ask concerning establishing clear goals and managing expectations could be:

- Is it clearly stated what the company wants to achieve with the merger?
- Is there a clear vision/strategy for the deal?
- Are early wins identified and confronted?
- Does the vision/strategy hold up (is it understandable)?
- Are there several other goals than cost efficiency in the integration efforts (revenue growth)?
- Are there quantifiable goals in the integration process (or can they be decomposed into quantifiable measures)?
- Do the goals have a time aspect?

6.1.2 Rigorously Manage Risks

The risk involved in the merger should be actively managed using systems for classification and tracking. Furthermore the integration team should keep a continuous log assessing these risks, where someone needs to be responsible for the oversight and where the development must be transparent as well as structured. The respondent urges use of the best practice developed for the year 2000 IT-problem. Some important questions to ask concerning rigorously managing risks could be:

- Are the risks being actively handled?
- Are there systems in place for tracking and classifying the risks?
- Is the integration team keeping a continuous log over the risk?
- Is someone specifically responsible for the oversight and development of these risks?
- Is the development transparent and structured?

6.1.3 Growth and Early Wins

According to the respondent any deal that has to much focus on only the cost saving side of the merger is doomed to fail. There must be other quantifiable goals that relate to growth,
such as increased revenue. These goals should put emphasis on the early wins and synergies in the merger and create a customer oriented approach to the integration effort. The respondent explains that most companies entering into merger integration easily find themselves becoming introvert and focused on the internal organization rather than on the customers. Thus, it becomes necessary to establish clear customer oriented goals in the integration process. Measures that can be used are number of new customers and number of customers lost (churn). The respondent also suggests that the company should, within a few months following the merger, seek to offer its customers something new, that they could not offer before the merger. The approach should be to seek what each organization can contribute to the other in order to create synergies. Thus, these goals and measures should be arranged proactively in the integration process, to effectively capture the synergies. There must also be some time aspect to these processes, where focus is put on one issue/area at a time, and not on all issues at once. Some important questions to ask concerning growth and early wins could be:

- Are there customer oriented goals in the integration effort?
- Are there goals for capturing synergies in the merger?
- Are these synergies growth related?
- Is every integration effort carefully planned and proactive?
- Is there a time frame that implicates when each issue should be dealt with?

6.1.4 Proactively Address Cultural Issues

According to the respondent it is important to identify what the keys to successful integration of culture are. It will commence with the key factors that have made the respective company successful, and proceed with those cultural factors that are thought to make it successful in the future. Subsequently you should use this information to structure an ideal level of cultural integration between the organizations. Included in this analysis must be the acquiring company’s ability to handle several structures and cultures. This will depend on the ethnic and demographic contexture of the organizations, and furthermore its corporate experience of dealing with cultural differences. Some important questions to ask concerning proactively addressing cultural issues could be:

- Have the organizational key success factors been identified?
- Have the cultural factors that can contribute to the respective organization been assessed from an inter-organizational perspective?
- Were only those cultural factors that contributed to each organization, integrated?
- Was the organizational capabilities assessed before the integration:
  - How interoperable is the organization?
  - What experience of different cultures exists?
  - How demographically and ethnically diverse are the organizations?

6.1.5 Establish a Strong Integration Structure

According to the respondent the integration structure should consist of key project management devices such as project planning, distribution of responsibilities, an integration team, and an integration manager. Furthermore the respondent withholds the importance of a balance between the acquirer and target for a successful integration. It’s important that the integration team consists of experienced personnel from all parts of the organization and that it has a strong mandate for implementing the integration. Preferably, the integration manager should be the future manager, so that there is no interruption in the development or shift in
strategy, because the manager will gain a strong knowledge of the operation. If it is motivated in the company, it’s ideal to have an integration team on standby that has extensive experience in their respective field of integration. This team can consist of a network within the acquiring firm that is in sleeper mode during normal operations, but who can step forward during a merger. Some important questions to ask concerning establishing a strong integration structure could be:

- Is there one or several integration managers?
- Is there one or several integration teams?
- Is the integration team balanced with individuals from both organizations?
- Does the team consist of experience from relevant areas?
- Does the team have a strong mandate for implementing changes?
- Will the integration manager have a central role in the continuing operations after the merger?
- Is there a regular integration team within the organization?

6.1.6 Select Leadership Quickly / Open, Frequent and Timely Communication

The respondent further explains that selection of leadership must begin during the due diligence with a leadership assessment and be established prior to integration. This makes it possible to immediately target the people you want to retain and early communicate the intentions. The respondent emphasises the importance of a leadership assessment in the due diligence phase as a cost effective tool for achieving successful post-merger integration. He further explains that the key to successfully implement the changes is always timing and therefore it becomes important to be in control of the process. In addition, it is important to identify the key employees to retain them in the merger. In a public deal this can be difficult, since the acquirer is very limited in the possibility to assess the target beforehand; they must instead seek to gather this information from the current management.

- Is there a leadership assessment being performed in the due diligence phase?
- Is there an effort to identify the key employees in the target organization in the due diligence phase?
- Is a plan for retention and communication in place before the integration?

6.1.7 Create a Sense of Urgency

It is important to have a timetable that sets a high tempo in the integration; however the respondent believes it’s imperative that some things are allowed to take its time. One should not wait to integrate what can be immediately integrated; it is necessary to set specific dates for completion to effectively achieve successful post merger integration. However, there must be a well reasoned plan for the integration, where each part is given its optimal time allocation at the right stages of the integration. There should be a plan for the integration, however a final goal for the integration may be hard to maintain, since the environment is constantly changing. Therefore, it is essential to continuously revise the integration plan to make it relevant to the changing prerequisites for operations. The respondent also believes that companies eventually need to make the integration process fade away, as it becomes more about effectively running operations and less about integrating.

- Is there a timetable with a high tempo for the integration?
- Is there a well reasoned plan behind the timetable?
• Is there any unnecessary stalemate of integration?
• Is the plan being continuously revised to fit the changing environment?
• Is the integration process let to take it curse and eventually fade away?

6.2 Jon-Sverre Schanche, Vice President of R&D

This was a formal interview, where we sought to gather information on each factor in our framework of best practices. It was carried out at Biotage’s headquarter in Uppsala, on the 12th of May.

6.2.1 Strategy & Direction

1. Was there a clear vision established for the merged company and were specific targets developed?

There was very clear vision behind the acquisitions, and it was easily used to set targets throughout the integration effort. The synergy that was sought to come from the mergers was clear and realizable.

2. Was there a clear strategy for the how the merged company should reach these targets?

Yes.

3. Was this strategy used to create clear and quantifiable goals?

Yes, both with focus on finance and operations, i.e. an operational goal to enable faster deliveries to customers within a limited time frame following the merger.

4. Was there a time factor to these integration goals, which could identify early wins and define the succession?

All goals was categorised into different timeframes.

5. Were there success measures that were used for assessing progress towards these goals?

Yes, all functions had measures for their progress with milestones.

6. Was there a well articulated and coherent integration strategy that reinforces the use of “best of both”, i.e. a neutral decision making process?

Schanche believes that there was too much conflict between the Swedish and the American divisions. Instead of a neutral decision process, there was politicking between the different managers; however this has not lead to significant problems.

6.2.2 Communication

1. Was the communication planned in advance, i.e. communication plan?

No, there was no preparation of the communication prior to the acquisitions.

2. Were all stakeholders (e.g. customers, shareholders, employees, management, market suppliers, etc.) addressed in the communication?

The primary focus was on the customers, where they immediately addressed any concerns regarding the service and new products etc. through magazines and direct communication.
3. Were the reasons behind the merger, i.e. benefits to the organization, communicated to all employees?
Yes, the reasons and benefits to the operations were immediately communicated following the announcement of the acquisitions.

4. Was a communication program for keeping the employees informed about the merger progress implemented?
No, there was no formal program for the communication.

5. Were the vision, strategy and goals of the merged company communicated to all levels of the organization?
There was a standardized communication from the top management, which was delivered locally to the employees.

6. Was the communication formed to generate enthusiasm amongst the employees for the merger?
Schanche believes that there was an informal ambition with the communication, to generate enthusiasm for the mergers.

7. Were there communication sessions performed, i.e. forums where employees meet senior leadership?
The primary source of information came from communication sessions with the top management directly following the merger.

8. Was the amount of information to different parts of the organization specially tailored or was all information uniform, i.e. bandwidth control?
Yes, each manager was responsible for delivering the appropriate and relevant information to his/her unit.

9. Were firewalls implemented, e.g. physical barriers such as separate offices for the deal developers or secrecy agreements that hinder the unwanted spread of information?
In America there were special agreements with the involved personnel, however, elsewhere there were no specific deals other than the employment contracts.

10. Was a wide range of media used for the communication, e.g. conferences, newsletters or formal meetings?
Other than in Argonaut there was only a single communication session immediately following the acquisitions. In this merger the employees immediately received a booklet, describing the new company, which was distributed simultaneously with the announcement.

11. Was the communication formed to reinforce the new organization, e.g. culture, procedures?
No, there has been practically no such information in the acquisitions.

12. Was there a two-way communication in the organization, i.e. listening to what is happening in the organization through meetings and other forums?
No, according to Schanche there was a clear top down approach to the communication.
13. Was the desired top management communicated instantly after the change in control?  
Yes, it was immediately communicated.

14. Was the organization informed about structural changes, integration activities, and new rules and procedures?  
Yes. The information was not given prior to the changes, but to implement any structural changes requires a certain level of communication.

15. Was the press considered in the merger, i.e. cooperating with journalists so that they understand the company’s point of view?  
Yes, the top management was very thoughtful in handling the press.

16. Was the information flow continuous over a long term, i.e. not packed into the first few weeks following the deal?  
No, the information was only communicated in the days following the announcement.

17. Were specific people given the responsibility of handling the communication in the organization during the merger integration process?  
Yes, a manager was assigned with the responsibility for public relations. (Not internally?)

6.2.3 Structure

1. Was there a steering committee, i.e. senior executives of the new company working with strategy and direction?  
Yes. There was a group composed of each division manager that oversaw the merger.

However there was no separate team that was involved with the merger. According to Schanche this created some problem, since the people responsible for the normal operation needed to take on the extra work effort of the integration. In such a situation, the company may lose some of its momentum in the competition.

2. Was there a program office, i.e. people responsible for driving the integration forward and providing the guidance to day-to-day decisions?  
No.

3. Were there specific integration teams, i.e. specialists focusing on integration of information technology, human resources, etc.?  
No.

4. Was the integration team jointly staffed?  
There was no separate integration team, but the integration was handled by people from both companies in all mergers.

5. Were the integration teams, program office and steering committee working full time with the integration?  
No, they were also responsible for normal operations.
6. Was there a process for assessing and selecting qualified integration leaders, managers and teams?
No.

7. Was there a separate transition structure, i.e. integration teams separate from the core business?
No.

8. Were the leaders of the transition teams also the leaders of the new organization after the combination?
Yes, the people responsible for the integration were also the leaders of the new organization.

6.2.4 Project Management

1. Were team building activities provided for the integration teams?
No.

2. Was a structured evaluation for aligning policies and procedures implemented?
No.

3. Was there a standardized integration plan, i.e. what functions must be involved, how and when they should be involved, which people are responsible (for due diligence, planning and implementation), key tasks to be carried out, deadlines etc.?
Each line production manager had a very large spreadsheet composed of three different categories. One that specified what integration efforts he/she believed should be implemented instantly, one that suggested what should be done within a month, and one that specified the long term goals of the integration effort within the unit. However this was more a to-do list than a formal plan that specified who was responsible for each process.

4. Was there a 100-day created covering all the issues where speed is important, i.e. key decisions to be made, game plans to retain customers, communication issues, HR issues, infrastructure issues etc?
In the acquisition of Argonaut, Biotage used a 90 day plan that was aimed at the practical integration, e.g. establishing a common billing system. Integration teams were sent to Argonaut, where they could quickly establish the necessary integration.

5. Was there a resource allocation process, i.e. process to prioritize key activities and most appropriate allocation of resources?
Yes, especially in the merger with Argonaut.

6. Were there learning mechanisms for future mergers, i.e. assessments of the quality of the transition effort to determine what changes might be appropriate during the next integration?
No, there was no formal learning process for future acquisitions. There was no analysis of the success of the integration efforts.

7. Was there top management commitment, i.e. giving support to the integration project by making enough resources (money and people) available?
There was no limit to the financial means available for the necessary travelling etc., however there was no extra resources to levitate the work effort in the form of consultants or new employees.

8. **Was individual leadership responsibilities assigned, i.e. formal sign-off over a given task or activity, or who is ultimately responsible for the success or failure of a specific transition effort.**
The manager of each division was responsible for the units’ integration efforts. There was no common direction for the detailed integration.

9. **Was individual leadership accountability assigned, i.e. significant amount of the bonus tied to measurable success?**
Yes, the bonuses were tied to the integration goals.

10. **Was there a defined project structure that focused on linking the objectives of the integration with the strategic intent of the merger?**
There was no clear structure; this process was carried through discussions.

11. **Was there integration reporting and monitoring, i.e. tight control exercised so to ensure updates are on time, according to a pre-established format, and with a thorough account of the integration work to date?**
Yes, through the use of the spreadsheets.

12. **Was the analysis overseen and was guiding principles developed by the integration leader?**
No.

13. **Was there a risk management process for identifying risks?**
No.

14. **Was there a system for tracking the development of these risks?**
No.

### 6.2.5 Organization

1. **Was there a retention plan, i.e. a plan for identifying and retaining key employees after the merger?**
There was a retention plan only in the American division, but not in the Swedish. This fact did not lead to any problems in Sweden.

2. **Was there a comprehensive staffing plan, i.e. a plan for recruiting, motivating and educating employees?**
Yes, there was a retention plan, and the sales together with service organization received special education. However there was no special recruitment plan for the new company.

3. **Was there clear information on the candidate selection process and severance?**
Yes, there was clear selection process and severance plans.
4. Was there a transparent selection process, i.e. were the reasons behind the selection of management easy to grasp?
Schanche believes that the selection process of the top management may not have been seen as clear and objective by the organization.

5. Was there a lay-off policy?
Yes, but it was shaped individually.

6. Was there a top leadership assessment and selection (prior to the closing of the deal)?
Not to the knowledge of the respondent.

7. Were there services to support displaced workers, e.g. helping them find new jobs?
Yes, in Sweden but not in America.

8. Was there a clear strategy for involvement, i.e. focus on involving employees and key organization leaders in the change efforts from the beginning to the end of the merger?
There was no clear strategy, but there were procedures in place to involve the employees in the operational changes.

9. Was management responsibility and relationships (hierarchical structure) clearly allocated quickly after closing the deal?
Yes, the hierarchy was immediately set.

6.2.6 Culture

1. Was there a cultural assessment of the target, in the pre-merger phase?
No, there was according to Schanche no cultural consideration prior to the acquisitions.

2. Was there a cultural assessment of Biotage made prior to the merger?
No.

3. Was there an evaluation of the cultural differences?
No. In the integration between Personal Chemistry and Pyrosequencing there was some consideration to cultural differences, but not during any of the following acquisitions. According to Schanche some of the organizational capability for HR has been lost during this time.

4. Were the shared values identified?
No.

5. Were the desired organizational values and principles established?
No, and this has lead to some confusion within the organization.

6. Were the old rewards and recognitions adjusted for the new desired culture?
The measures for adjusting the rewards and recognitions are currently being implemented, and were not carried out immediately following the mergers.
7. Were rewards made specific to integration goals?
No. (Only to top management)

8. Were old rules and policies that hindered the desired culture eliminated?
No, this was considered only in the merger between Pyrosequencing and Personal Chemistry.

9. Were new rules established that facilitated the desired changes?
No, this was considered only in the merger between Pyrosequencing and Personal Chemistry.

10. Where new standard operating procedures developed and documented?
Yes, there were very clear procedures aimed at improving the quality of new products and to handle processes between different units. There was particular emphasis within the areas of research, marketing and production.

11. Were goals and measures established that reinforced the desired changes?
Yes, there were goals established for the organization following the acquisitions that sought to reinforce the desired changes. These were classified into three different categories A, B and C. The first category was relevant for the entire company, and the last category was relevant for the individual business unit. The goals were both financial and operational, with goals such as customer satisfaction, quality and the launching of new products.

12. Where new training programs and routines established in order to create competency in the organization to implement the new processes and procedures.
Yes, but only to the sales, service and development divisions.

13. Where new ways of rewarding and training management established?
Top management was given special benefits.

6.2.7 Information Technology

1. Was interoperability of/between the target and buyer assessed, i.e. maximum use of open standard software, existence of enterprise models, existence of system documentation etc.?
It was done in the acquisition of Argonaut, but not in the preceding merger integrations. Much of the IT integration is being executed today and not immediately following the merger. According to Schanche the company has a very strong IT department.

2. Were the IT integration decisions based on considerations of interoperability, i.e. decision built on sound technical information rather than organizational politics?
Yes, in the acquisition of Argonaut. However in previous integrations, the company assessed that it was better to avoid the political difficulties of integrating the IT systems and postponed the integration effort.

3. Was the effectiveness and competence of target’s IT department evaluated?
The respondent does not know.

4. Was an IT integration plan established?
There was a detailed plan for immediately integrating specific required function. However the complete integration of the systems, where postponed in all but the Argonaut acquisition, with a vision of integrating them in the long term.

5. Was an appropriate strategy for security developed, i.e. strategies to safeguard the information and guarantee the reliability of applications?
Yes, and it has worked well.

6. Was the change determined and justified at a productivity level, i.e. cost/benefit justification of the investment in terms of hardware, software and experts?
Yes.

7. Was there significant administrative support for the project, i.e. support given by the company to consultants during the integration project, for better compilation of information and project follow-up?
Yes, the company has used consultants.

8. Was there a complete technological infrastructure before the merger, i.e. existence of a complete technological base comprising, for example, an internal network, operating systems, and adequate software releases, high-performance and highly scalable tools, and project development?
Yes, there is a very clear structure in Biotage. In the acquisition of Argonaut, they found during the due diligence process that Argonauts structure was very week and therefore prepared a complete package that worked from day one in the merger.

9. Was there an effective internal and external training plan, i.e. existence of a training plan for users and the staff for assigning (in the case of high integration level applications) the components of the chain (distributors, suppliers, customers)?
Yes, there were training programs.

10. Was there helpful technical support, i.e. having the cooperation of specialists in new tools? Tools must be obtained from manufacturers who offer additional support services.
Yes, there was a help desk.

6.3 Jeff Bork, President and Chief Executive Officer

Here follows an interview with Jeff Bork, the president and chief executive officer of Biotage. The interview focuses on the issues within the model that was not answered in the first interview with Jon-Sverre.

6.3.1 Strategy & Direction

1. Was there a cultural integration strategy?
No

2. Were there integration goals, i.e. whether the integration process is achieving its mission?
No
3. Were measures produced regarding the accomplishment of the integration goals?  
   No

4. Were there operational goals, i.e. productivity and quality goals?  
   Yes

5. Were measures produced regarding the accomplishment of the operational goals?  
   Yes, and these were measured very frequently.

6. Were there cultural and process goals, i.e. goals concerning values and behavior etc.?  
   No

7. Were measures produced regarding the accomplishment of the process and cultural goals?  
   No

8. Were there financial goals, i.e. quantifiable cost savings or revenue goals?  
   Yes

9. Were measures produced regarding the accomplishment of the financial goals?  
   Yes, there was a large focus on the financial goals.

10. Was there a time factor to these integration goals, which could identify early wins and define the succession?  
    Yes

6.3.2 Communication

1. Were the “me issues” quickly communicated to the employees, i.e. anything impacting careers?  
   Yes, the top management was decided before the merger and the entire organization in two months following the closing of the deal.

2. Was information flow control actively handled, e.g. reducing the complexity of messages, lengthening the time of transmission etc.?  
   No

3. Were the vision, goals and challenges translated by team leaders so they were relevant to the team or group members?  
   No

6.3.3 Structure

1. Was there a process for assessing and selecting qualified integration leaders and managers?  
   Yes
6.3.4 Project Management

1. Was a budget set up for the integration effort, where the different costs were determined and classified continuously during the integration process?  
Yes

6.3.5 Organization

1. Was there a clear strategy for involvement, i.e. focus on involving employees and key organization leaders in the change efforts from the beginning to the end of the merger?  
Yes, weekly updates were performed throughout the organization.

6.3.6 Culture

1. Were events and ceremonies established to promote the new ways of doing things?  
Yes, for the sales department, the marketing department and other specialist functions.

2. Was a new organizational structure established that reinforced the operational change?  
Yes, the organization was ‘flattened’.

6.3.7 Information Technology

1. Was an IT assessment conducted on the acquirer and target?  
Yes

2. Was middleware available and used when required in both organizations?  
There was never any need.

3. Was the acquiring company’s IT systems mainly open standard software?  
Yes

4. Were enterprise models, documentation and ontologies available for defining and understanding the acquiring company’s organization?  
No

5. Was there a clear IT vision of the future of the post-merger IT systems, which aligns the direction of the IT integration effort with the merger goals?  
No

6. Was a common IT system platform chosen for the merged company?  
No, only the specific functions that needed to be transferable between the systems were specified.

7. Was the change determined and justified at a productivity level, i.e. cost/benefit justification of the investment in terms of hardware, software and experts?  
Yes, there was an evaluation of the cost/benefit of a joint IT-platform.
6.4 Mats-Olof Wallin, Vice President and Chief Financial Officer

The interviews were carried out at Biotage headquarters in Uppsala, on the 12th of May. This interview was carried out in a less formal manner, where the aim was to gather information that could corroborate the data gathered in the interview with Jon-Sverre Schanche, and that could fill potential gaps in our model. Furthermore, we sought to gather information about the strategic intent behind the acquisitions and the logical behind the integration efforts. This can be used to build a understanding of the appropriateness of some of the decisions concerning the level of integration and of the procedure that were implemented in the effort.

According to the respondent the acquisition of Biotage and Personal Chemistry in the fall of 2003 completely changed the company, which was then known as Pyrosequencing. The change was so profound that the company’s name was no longer relevant. The technology ‘Pyrosequencing’ was no longer the core of the business, both Personal Chemistry and Biotage were substantially different businesses, and thus the name was changed to Biotage. However, to illustrate that all three companies were fully integrated into one another, they maintained the logo of Pyrosequencing and the colours of Personal Chemistry.

The ambition with the mergers was in part to reach a critical mass of about 100 million dollars, since a great deal of the competition is very large companies, such as Pfizer, AstraZeneca and General Electrics. With this growth, the aim was to consolidate departments and to reach economies of scale in production, and thus reach synergies that are essential for successfully meeting the competition. The acquisitions made it possible for the customers of Biotage to buy the full spectrum of tools they needed, in a package from the company.

Argonaut was later acquired in 2005, to get their consumables business in Cardiff England. However, because of rival bidders it became necessary to acquire the business in Redwood California. The office and plant in Cardiff was left stand alone, but the plant in Redwood was integrated with the former Biotage headquarters in Charlottesville, Virginia. The American production was then completely integrated into a single plant/office, while there was very little administrative integration with Cardiff.

Throughout the integration efforts it was necessary to maintain the customer orientation and consequently the first priority was to quickly handle the sales force, and integrate it into a single department that could effectively handle the sales of the merged company. The desired changes were directly communicated to the sales force, where the key people had been identified and targeted for effective retention.

In the previous mergers there was little integration of the IT systems, but in the acquisition of Argonaut the IT systems were immediately integrated. In all previous mergers, having fully integrated IT systems had been given a very low priority.

At the same day as the employees were informed about the takeover they received a booklet that contained all information about the strategic intent behind the merger and what it would mean to the workers.

There have not been enough resources to immediately integrate all parts of the businesses, and therefore there has been a large emphasis on capturing the most important areas in the integration effort. The areas with lower priority have been postponed to the long term.
The Swedish and the American cultures have according to the respondent been very difficult to integrate, and because the Swedish culture in large is not applicable onto the American market there has been very little cultural integration. Thus, Biotage has been divided into two separate cultures that have been working simultaneously throughout the organization, which has lead to some problems. The American division delivers 85 percent of the total sales, and therefore the company doesn’t want to risk any major changes to the division.

According to the respondent the company will be less aggressive in its growth strategy in the nearest future and focus on consolidation and integration, where the main emphasis will be to make the operation more effective. There has been a period with intense growth where only the integration of the highest priority areas was executed and today the integration of less priority is performed. Thus, the integration effort there been intentionally postponed in several areas as the resources have been assign to the areas with the highest priority. The areas that have been given the highest priority are the integration of the sales and production organization, where extensive analysis has been performed to achieve maximum integration effort.

All the acquired companies have been inquiring losses prior to the merger, and today there have been many synergies that have resulted in a positive profit for the last 6 months. Thus the overall integration of the companies has been a success. There has also been an effort to make the staffing process as transparent and clear as possible for the organization.

Prior to the acquisition, Biotage identified the key areas that make up the underlying reasons for the merger, and they deployed all resources to assure the realization of these factors. The postponing of certain integration activities have followed from analysis of the time factor, where areas such as R&D, production and sales, need to be quickly dealt with. Other areas such as the IT integration have to a large extent been postponed, because the area is as realizable in the future. The development of new products can’t wait, since the product lifecycle is 2-4 years, and there is no room for delaying the introduction of new products. The central theme of the immediate integration effort has been to effectively meet the competition and not lose momentum in the backwaters of the operational changes.

Many new internal projects have recently been initiated subsequent to analysis’s that have been made after the merger of detailed synergy potentials within the merged organization.

There has been no risk management of the integration effort, since the company has not had the resources to conduct such (evaluated other integration activities as more important).

According to the respondent some losses have been acquired due to the defocus that resulted from making the people who run normal operations, also responsible for the integration effort. At the same time the respondent states that there were not sufficient resources for a separate integration structure. In the short run this has led to greater profits (lesser costs) by delaying investments, but in the long run it has delayed potential synergies. With the financial capability, the respondent believes it would be better to have a separate integration structure in future acquisitions.

Given the prerequisites, the respondent believes that Biotage has had the right priorities in the integration effort, and that the postponed integration, will not pose any problem to the organization.
Today, a problem is that the organization is spread out with three large offices in Sweden, England and USA, but this has been an inevitable result of the mergers. The experience can however help the organization cope with future acquisitions, especially in the USA.

In the merger with Argonaut there were many factors in the integration effort that worked very well. At day one the IT systems were completely integrated and the employees were given extensive information about the strategic intent of the merger and what it would mean for them. The booklet that was given out at the announcement included amongst other things an organizational structure that explained the structural changes that were intended. However, in this merger there was a long period before the closing of the deal. This enabled the organization to better prepare for the integration but the respondent also believes that much was gained from the experience of the previous mergers.
7 Result of Case Study

The primary result of this thesis was of course the established merger integration framework, see chapter 5. The secondary result comes from the case study at Biotage and is compiled from the interviews with the Vice President of R&D (Jon-Sverre Schanche), the CEO (Jeff Bork), and CFO (Mats-Olof Wallin).

The merger integration capability framework was the basis for an integration checklist that was used in order to attain as much information as possible from the respondents. The interviews were both formal and informal, where we sought to gather information on each factor in our framework of best practices.

The output of the case study consists of percentage values for the capabilities of Biotage concerning each domain in the framework. The operationalized measures mean values were summed up so that the top intermediate property, and finally the main property, received a percentage value.

### MERGER INTEGRATION CAPABILITY

<table>
<thead>
<tr>
<th>Capability</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger Integration Capability</td>
<td>66%</td>
</tr>
<tr>
<td>Strategic Capability</td>
<td>64%</td>
</tr>
<tr>
<td>Communication Capability</td>
<td>55%</td>
</tr>
<tr>
<td>Structural Capability</td>
<td>50%</td>
</tr>
<tr>
<td>Project Management Capability</td>
<td>78%</td>
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<tr>
<td>Organizational Capability</td>
<td>93%</td>
</tr>
<tr>
<td>Cultural Capability</td>
<td>39%</td>
</tr>
<tr>
<td>Information Technology Capability</td>
<td>82%</td>
</tr>
</tbody>
</table>

#### 7.1 Merger Integration Capability 66%

The main property is compiled of the mean of the seven top intermediate properties, and encompasses the merger integration capability.

##### 7.1.1 Strategic Capability 64%

**Clear Vision**

Was there a clear and understandable vision established for the merged company addressing customers, capabilities, competitors, costs and culture etc.?

**YES**

**Coherent Integration Strategy** 33%
Was there a well articulated and coherent integration strategy that reinforces that this is a “merger of equals” rather than an acquisition?  
NO

Was there a cultural integration strategy?  
NO

Was there an IT integration strategy?  
YES

**Quantifiable Goals and Measures**  

**Integration Goals**  
*Were there integration goals, i.e. whether the integration process is achieving its mission?*  
NO

*Were measures produced regarding the accomplishment of the integration goals?*  
NO

**Operational Goals**  
*Were there operational goals, i.e. productivity and quality goals?*  
YES

*Were measures produced regarding the accomplishment of the operational goals?*  
YES

**Process & Cultural Goals**  
*Were there cultural and process goals, i.e. goals concerning values and behavior etc.?*  
NO

*Were measures produced regarding the accomplishment of the process and cultural goals?*  
NO

**Financial Goals**  
*Were there financial goals, i.e. quantifiable cost savings or revenue goals?*  
YES

*Were measures produced regarding the accomplishment of the financial goals?*  
YES

**Time Factor for the Goals**  
*Was there a time factor to these integration goals, which could identify early wins and define the succession?*  
YES

**Customer Oriented Goals**  
*Were there customer oriented goals in the integration effort, i.e. offering the customers something new that they could not offer before the merger etc.?*  
YES

**7.1.2 Communication Capability**  

**Communicate Rules & Policies**  
*Was the organization informed about new rules, policies and procedures?*
YES

Communication to All Stakeholders  100%

Internal Communication
Were the employees addressed in the merger communication?
YES

External Communication
Were the external stakeholders addressed in the merger communication, i.e. customers, press, suppliers, stockholders etc.?
YES

Communicate the Vision, Goals and Challenges  100%
Was the communication effort focused on informing the organization about its strategic direction and shared vision?
YES
Were the goals and challenges communicated to the people responsible for their achievement?
YES

Quickly Communicating Top Management  100%
Was the top management, e.g. board of directors and senior management, defined and communicated quickly for the new firm?
YES

Quickly Communicating “Me” Issues  100%
Were the “me issues” quickly communicated to the employees, i.e. anything impacting careers?
YES

Communication Plan  0%
Was there a communication plan, i.e. where goals are written down, content decided and resources committed?
NEJ

Firewalls  0%
Were firewalls, i.e. barriers to hinder unwanted spread of information, actively used in the merger to control information flows?
NO

Tailoring the Information  0%
Was information flow control actively handled, e.g. reducing the complexity of messages, lengthening the time of transmission etc.?
NO
Were the vision, goals and challenges translated by team leaders so they were relevant to the team or group members?  
NO

**Supporting Channels**  
Are several information channels, i.e. newsletters, formal meetings, internet etc., used to fully communicate the message?  
NO

**Continuous Information**  
Was the information flow continuous and consistent over a long-term?  
NO

**Two Way Channel**  
Were the channels for communication two-way, thus making it possible for feedback from management and employees?  
NO

### 7.1.3 Structural Capability  

**Steering Committee**  
Was there a steering committee, i.e. senior executives of the new company working with strategy and direction?  
YES

**Program Office**  
Was there a program office, i.e. people responsible for driving the integration forward and providing the guidance to day-to-day decisions?  
NO

**Integration Teams**  
Were there specific integration teams, i.e. specialists focusing on integration of information technology, communication, human resources, etc.?  
NO

**Separate Integration Structure**  
Was the integration structure separate from the core business?  
NO  
Was integration structure formed early in the integration process, before the change in control?  
NO

**Jointly Staffed**  
Was the integration structure balanced with members from both companies?  
YES


**Working Full Time** 0%
Were the integration teams and the integration manager working full time with the integration?
NO

**Transition Team Leadership** 100%
Were the leaders of the transition teams also the leaders of the new organization after the combination?
YES

**Integration Leadership Assessment** 100%
Was there a process for assessing and selecting qualified integration leaders and managers?
YES

**Individual Accountability & Responsibility** 100%
Was an integration leader appointed?
YES
Were the leaders who have significant impact on the success of the integration held accountable, e.g. do they have a significant amount of their bonus tied to measurable success?
YES

**Team Building Activities** 0%
Were team building activities provided for the integration teams?
NO

## 7.1.4 Project Management Capability 78%

**Capturing Associated Costs** 100%
Was a budget set up for the integration effort, where the different costs were determined and classified continuously during the integration process?
YES

**Resource Allocation Process** 100%
Was there a resource allocation process, i.e. process to prioritize key activities and most appropriate allocation of resources?
YES

**Integration Monitoring & Reporting** 100%
Was there integration reporting and monitoring, i.e. tight control exercised so to ensure updates are on time, according to a pre-established format, and with a thorough account of the integration work to date?
YES

**Learning Mechanisms** 0%
Were there learning mechanisms for future mergers, i.e. assessments of the quality of the transition effort to determine what changes might be appropriate during the next integration?
Alignment of Integration Efforts with Strategy 100%
Were the objectives of the integration efforts linked with the strategic intent of the merger?
YES

Standardized Integration Plan 100%
Was there a standardized integration plan, i.e. what functions must be involved, how and when they should be involved, which people are responsible (for due diligence, planning and implementation), key tasks to be carried out, deadlines etc.?
YES

100-day Plan 100%
Was there a 100-day plan covering all the issues where speed is important, i.e. key decisions to be made, game plans to retain customers, communication issues, HR issues, infrastructure issues etc?
YES

Top Management Commitment 100%
Was there top management commitment, i.e. support given to the integration project by making enough resources (money and people) available?
YES

Risk Management 0%

Risk Assessment
Was a risk assessment conducted in order to identify all risks in the integration process and prioritize them in accordance to their business criticality and complexity?
NO

Risk Management Plan
Was there a risk management plan, i.e. a description of the possible risks based on the risk assessment and a plan to avoid or minimize those risks?
NO

Permanent Tracking Process
Was there a system for tracking the development of the risks?
NO
Was someone specifically responsible for the oversight of these risks?
NO

7.1.5 Organizational Capability 93%

Retention of Talent 100%
Was there a retention plan, i.e. a plan for identifying and retaining key employees after the merger?
YES
**Staff Assessment & Selection**  50%

Was a common staffing, hiring, and promotion process that focused on the needs of the merged company’s strategy established?
YES

Was the staff selection process transparent, fair and consistent where all decisions were based on accurate and comprehensive data?
NO

**Riffing**  100%

Were the terminated employees treated well during the downsizing, i.e. services to support displaced workers, e.g. helping them find new jobs etc.?
YES

**Top Leadership Assessment & Selection**  100%

Was a leadership assessment conducted in the business due diligence?
YES

Was the leadership selection process transparent, fair and consistent where all decisions were based on accurate and comprehensive data?
YES

**Redefine Responsibilities & Reporting Relationships**  100%

Were management responsibilities and relationships (hierarchical structure) clearly allocated quickly after closing the deal?
YES

**Focus on Involvement**  100%

Was there a clear strategy for involvement, i.e. focus on involving employees and key organization leaders in the change efforts from the beginning to the end of the merger?
YES

**Focus on Customers**  100%

Is the middle management explicitly responsible for maintaining sales, prior to any other commitment?
YES

**7.1.6 Cultural Capability**  39%

**Cultural Due Diligence**  0%

**Cultural Assessment of Acquirer**

Has the acquirer carefully evaluated their culture, i.e. a self assessment?
NO

**Cultural Assessment of Target**

Was there a cultural assessment of the target?
NO

**Decide on the new Culture**
Were the desired organizational values and principles established, i.e. combining the strengths of both parent companies?

NO

**Assess Cultural Compatibility**

Was there an assessment of the cultural differences and shared values?

NO

**Cultural Integration Plan**

Was there a cultural integration plan?

NO

**Cultural Integration Activities**

78%

**Rules and Policies**

Were rules that hindered integration identified and eliminated?

NO

Were new rules and policies that reinforce the desired operations and culture created?

YES

Was there a standardization of policies and procedures?

YES

**Training and Development**

Were new training programs and routines established in order to create competency in the organization to implement the new processes and procedures?

YES

**Ceremonies and Events**

Were events and ceremonies established to promote the new ways of doing things?

YES

**Leadership behavior**

Was a system for rewarding/penalizing the managerial adherence to the desired behaviors established?

YES

**Rewards and recognition**

Were the rewards and recognitions that reinforced the old methods and procedures replaced with new ones that were connected to the merged company’s desired ways of operations?

NO

**Physical environment**

Was the physical environment changed to integrate the people in the organization?

YES

**Organizational structure**

Was a new organizational structure established that reinforced the operational change?

YES
7.1.7 **Information Technology Capability** 82%

**IT Assessment of Acquirer and Target** 100%
*Was an IT assessment conducted on the acquirer and target?*
*YES*

**Assess IT Compatibility** 100%
*Were the differences between the two companies assessed, i.e. differences in programming languages, platforms etc.?*
*YES*

**Technical Integration Tools** 100%
*Was middleware available and used when required in both organizations?*
*YES*

**Open Standard Software** 100%
*Was the acquiring company’s IT systems mainly open standard software?*
*YES*

**Enterprise Models & Documentation** 0%
*Were enterprise models, documentation and ontologies available for defining and understanding the acquiring company’s organization?*
*NO*

**Clear IT Vision** 0%
*Was there a clear IT vision of the future of the post-merger IT systems, which aligns the direction of the IT integration effort with the merger goals?*
*NO*

**Common System Platform** 100%
*Was a common IT system platform chosen for the merged company?*
*YES*

**IT Department Effectiveness** 100%
*Did the IT department of the acquirer have enough high qualified, competent personnel and did they participate in the planning process?*
*YES*

**IT Integration Plan** 100%
*Was there an IT integration plan?*
*YES*

**Cost/Benefit Justification** 100%
*Was the change determined and justified at a productivity level, i.e. cost/benefit justification of the investment in terms of hardware, software and experts?*
*YES*
Training & Development 100%

Was there an effective internal and external training plan, i.e. existence of a training plan for users and the staff for assigning (in the case of high integration level applications) the components of the chain (distributors, suppliers, customers)?

YES
8 Analysis

In this chapter the purpose was to analyze the results that the investigator attained in the previous chapter. The analysis is the foundation for the conclusions in the next chapter.

8.1 Strategy

The overall vision of the mergers and the strategic intent was clearly articulated, and Biotage placed much emphasis on capturing and securing the value in the deal. Furthermore, there was a clear focus on the customers, which permeated all divisions of the company throughout the integration. However, the vision did not encompass a strategy for integrating either the corporate cultures or the IT infrastructures in the different companies.

In addition, our analysis found that there were no goals and measures developed for the actual integration teams that could continuously monitor the effectiveness of the integration effort. The goals where focused only on the operation and consequently could only measure the results of the effort, and thus failed to deliver a process for improving procedures.

8.2 Communication

The vision, goals and challenges were strongly emphasized in the communication and the ‘ME’ issues in addition to the top management were quickly communicated to the organization.

However, there was no complete communication plan prepared before the merger. The communication was primarily given directly following the merger and not given continuously throughout the integration, which is needed in order to make the organization more susceptible to the information. Furthermore, there was no two way communication channel that gave employees an opportunity to express their views on the integration.

8.3 Structure

In the mergers the respective manager of each division was responsible for its integration, and together they formed a steering committee for the integration effort. This committee was jointly staffed, and was naturally also composed of the people who would lead the company after the merger.

However, there was no separate integration structure in the mergers, and thus the people who were responsible for the integration were not working full time with this effort. This can lead to large problems with the actual operation, as the focus on the integration hinders the company from developing their competitiveness in the market. Deploying integration teams to deal with the details in the integration can solve this problem. Biotage have used integration teams, but in general each division had the responsibility for the integration of their processes, people etc.

8.4 Project Management

Biotage used a clear process for allocating resources, in accordance with their priority in the integration and aligned the effort with the strategy for the merger. There was tight control
exercised to ensure that updates were on time in accordance with pre-established formats and Biotage used 100-day plans to stress the integration of the areas where speed was essential.

However, the company did not establish any learning mechanisms in the mergers, where the effectiveness and appropriateness of the integration efforts were evaluated. Furthermore, there was no active risk management in their integrations that could identify difficulties and monitor their progress.

8.5 Organization

Biotage performed processes for identifying and retaining key employees in the mergers, which is vital for the integration. In addition, they performed leadership assessments prior to the mergers that have focused on the appropriate leaders of the merged company. There was a strong emphasis on the customer throughout the organization and efforts to involve the entire organization in the change effort.

However, the processes for selecting people for the merged company have not been transparent to the organization, which can lead to anger and confusion amongst the employees.

8.6 Culture

In the mergers at Biotage there were efforts to change the organizational structure to fit the intended changes in the organization. In addition, there were ceremonies and events to integrate the workforces, and new training programs to help the employees with the changing tasks and environment. However, there were no cultural due diligence in the mergers and almost no effort to mitigate the integration of the different corporate cultures.

8.7 Information Technology

As of the last merger with Argonaut, the IT capability strongly improved. There was an extensive assessment of the target and an analysis of the compatibility in the pre-merger phase. A common system platform was chosen, that worked from day one in the merger. In addition, Biotage has a very strong IT department and have made cost/benefit justifications to their integration efforts. However, there has been no clear vision for the IT infrastructure and the company today operates on several different platforms.
9 Conclusions & Discussion

Ultimately, the only thing that remains is to connect the results with the questions at issue in order to arrive at some conclusions. Our intentions in this chapter were to relate the conclusions to each specific question and area of analysis.

A general conclusion could be drawn from the method used to approach the main questions at issue. The authors have concluded that the best way of creating a model for assessing a system component is to use a “Top Down” approach. In other words, as the abundant amount of information was received and analyzed, it was important to begin with the “big picture”. Understanding the overriding issues, i.e. the top levels of the framework, makes it easier to organize those of lesser consequence.

9.1 Merger Integration Capability Framework

The main research question of this thesis is: “How can merger integration capability be assessed?” A literature study was conducted. From the literature, the most important variables were found and were placed in the framework. The top level of this framework consists of the domains Strategic Capability, Communication Capability, Structural Capability, Project Management Capability, Organisational Capability, Cultural Capability and IT Capability. The domains were decomposed into more detailed variables and made operational, i.e. it was defined how to measure them. Taking a deeper look at these domains, they can be said to cover all the relevant best practices according to the interviews. For this reason, the authors feel that they have fulfilled their goal and answered the first question at issue. Also, when these variables were compared to the case, most of the variables indeed have the influence suggested by the framework.

The constructed framework can be a valuable instrument that can be used in practical or theoretical settings. Practically, it could be used by executives or management consultants to evaluate a company’s current merger integration capability. The framework can also be used as a basis for further research. It is based on an extensive literature study and a thorough case study, but much empirical research could be done to validate and refine the model.

9.2 Case Study at Biotage

The purpose of the case study was to evaluate the merger integration capability of Biotage. It should be said that the case supported the framework very well. Most of the variables in the framework were present, and they did have a positive effect on the merger.

9.2.1 Merger Integration Capability

The second research question of this thesis is: “How high is the merger integration capability at Biotage according to the established framework?” The overall merger integration capability was measured to be 66%. This means that the integration experiences at Biotage were in 66% accordance with our identified best practices, measured through equally weighted mean of all integration areas in the framework.

The area that was given the highest value was organizational capability, where the company acted in 93% accordance with our best practices in their integration effort. The area on the other end of the scale was cultural capability, which received a value of 39%. No other area
was given a score under 50%. Having an area with a score below 50% will with a high probability create problems in future merger integration if it’s not given more attention.

For a company like Biotage, an overall value of 66% can be sufficient for small future mergers, because the cost of improving the value may not be justified by the benefit. However, our conclusion is that this value is not sufficient for a big merger, where the other company is as large as or larger than Biotage. Because of the low score in cultural capability, big problems could especially appear if a future merger would encompass a major integration of two different cultures.

9.2.2 Suggested Improvements

There are always possibilities for improvements so after having performed the case study some suggestions, according to the developed framework, are discussed below.

Culture

The foremost improvement that is suggested is that the company deploys a cultural due diligence process prior to any merger, which can help in the development of a plan for the cultural integration. This will help to facilitate the alignment of the different departments and functions between the two companies.

Structural

According to the framework Biotage can greatly benefit from using a separate transition structure in the future. This will help the normal operation to function properly throughout the integration and it will allow the people responsible for the integration effort to perform optimally.

Communication

Biotage should implement a plan for the communication in future mergers where the information flow throughout the organization is continuous over the entire integration phase and where there are channels for a two-way communication.

Strategic

In accordance with the framework it is suggested that the company should develop a strategy for both the cultural integration and the IT integration. Furthermore Biotage should use measurements and goals in order for the integration teams to evaluate the effectiveness and appropriateness of their efforts.

Project Management

In future integration efforts, the capability would strongly improve if there was a process for learning, where the integration effort is evaluated so the company can build competence for the future. Furthermore it is suggested that Biotage implements a risk management process for the integration effort, which can track risks in larger more complicated merger integration efforts.

Information Technology

According to the framework Biotage should develop a long term vision for the IT infrastructure and they should choose a common system platform. This will make the future integration efforts less complex.
Organization

The organization would benefit from a more transparent selection process in future merger integrations. When the process is not clear to the organization it can lead to questioning and dissatisfaction amongst the employees.

9.3 Discussion

During the course of the last three years Biotage has completed several mergers, and they have acted differently in each merger. In the case study general questions were asked that might be answered differently depending on which merger that was focused on. It is probable that a company that has experienced many mergers will ultimately score higher within our framework than companies who have only merged once or twice. For this reason we decided that the most recent merger, i.e. the merger between Argonaut and Biotage, was most relevant. Although, not all areas of the framework were applicable on that merger and for this reason the other mergers were also discussed.

The results of the case study can not be generalized since the company is too complex and unique for it to be possible to draw any general conclusions about similar companies and industries. On the other hand, the framework should be general in nature as it is established upon best practices that should be relevant to all companies.

It should be said that a large company like General Electric should score 100% on each category, because the benefits for each best practice will surmount the costs. However, for a company like Biotage that is relatively small and that has experienced heavy losses both prior and throughout the mergers, the best practices will not always make sense from a financial perspective.
10 Future work/investigation

During the work with this master thesis the following questions arose, where further investigation could be done.

More focus on the merger integration capability framework
After the interviews it was rather evident that there are a lot of important decisions to make during a merger, which in the context of time constraints and limited resources makes it very stressful for the executives in charge. For this reason it would be interesting to let the architecture theory diagrams be given weights. This could be achieved by letting management consultants and executives prioritize the different properties in the framework in order to distinguish which specific aspects that are most important. In the long run the framework could be updated with more information because researchers are constantly finding new solutions, especially in the domain of IT.

The framework consists of shared best practices. Several of these, such as standardized integration plan, can be decomposed into several more properties. Considering the time frame of this thesis, this kind of detailed decomposition was not possible but with more resources and time it would be a natural next step for developing the framework.

Supplementary assessments and benchmarks
Supplementary case studies and assessments could also be carried out with the same focus, but at other companies. Such studies could be used for creating a benchmark in order to identify differences between how companies, within different industries and of varied sizes, manage their merger integration capability and the effects thereof. This would give a better picture of the companies received value, i.e. is the percentage high or low in comparison to similar companies? It would also enable us to better understand how a change in the merger integration capability affects the outcome of mergers expressed in more monetary values.

Conducting follow-up assessments through new interviews at Biotage would also make it possible to investigate the merger integration capability of Biotage at a later date, in case of additional mergers. This would allow the opportunity of studying the differences in how the merger integration is handled, then and now. This would be especially be interesting in case of additional mergers where the results of the mergers could be evaluated against the merger integration capability.
11 References

11.1 General


11.2 Internet

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11.3 Merger integration


(AT.Kearney, 2005a) AT.Kearney (2005a), 'Assessing CLIENT’S Merger Integration Capabilities’, Stockholm


(Menge, 2005) Menge, W. (2005), 'Pre-Merger IT strategies', 3rd Twente Student Conference on IT, University of Twente


### 11.4 Persons

(Bork, 2006) Jeff Bork, President and Chief Executive Officer, Biotage.

(Schanche, 2006) Jon-Sverre Schanche, Vice President of Research and Development, Biotage.

(Vernersson, 2006) Fredrik Vernersson, Principal at AT.Kearney. Previous to working at AT.Kearney he worked at McKinsey & Co and at Framfab as integration manager in the PMI of Framfab and Guide.

(Wallin, 2006) Mats-Olof Wallin, vice President and Chief Financial Officer, Biotage
Appendix 1: Integration Checklist

1. Strategic Capability

1.1 Clear Vision
Was there a clear and understandable vision established for the merged company addressing customers, capabilities, competitors, costs and culture etc.?

1.2 Coherent Integration Strategy
Was there a well articulated and coherent integration strategy that reinforces that this is a “merger of equals” rather than an acquisition?

Was there a cultural integration strategy?

Was there an IT integration strategy?

1.3 Integration Goals
Were there integration goals, i.e. whether the integration process is achieving its mission?

Were measures produced regarding the accomplishment of the integration goals?

1.4 Operational Goals
Were there operational goals, i.e. productivity and quality goals?

Were measures produced regarding the accomplishment of the operational goals?

1.5 Process & Cultural Goals
Were there cultural and process goals, i.e. goals concerning values and behavior etc.?

Were measures produced regarding the accomplishment of the process and cultural goals?

1.6 Financial Goals
Were there financial goals, i.e. quantifiable cost savings or revenue goals?

Were measures produced regarding the accomplishment of the financial goals?

1.7 Time Factor for the Goals
Was there a time factor to these integration goals, which could identify early wins and define the succession?

1.8 Customer Oriented Goals
Were there customer oriented goals in the integration effort, i.e. offering the customers something new that they could not offer before the merger etc.?

2. Communication Capability

2.1 Communicate Rules and Policies
Was the organization informed about new rules, policies and procedures?
2.2 Internal Communication
Were the employees addressed in the merger communication?

2.3 External Communication
Were the external stakeholders addressed in the merger communication, i.e. customers, press, suppliers, stockholders etc.?

2.4 Communicate the Vision, Goals & Challenges
Was the communication effort focused on informing the organization about its strategic direction and shared vision?

Were the goals and challenges communicated to the people responsible for their achievement?

2.5 Quickly Communicating Top Management
Was the top management, e.g. board of directors and senior management, defined and communicated quickly for the new firm?

2.6 Quickly Communicating “Me Issues”
Were the “me issues” quickly communicated to the employees, i.e. anything impacting careers?

2.7 Communication Plan
Was there a communication plan, i.e. where goals are written down, content decided and resources committed?

2.8 Firewalls
Were firewalls, i.e. barriers to hinder unwanted spread of information, actively used in the merger to control information flows?

2.9 Tailoring the Information
Was information flow control actively handled, e.g. reducing the complexity of messages, lengthening the time of transmission etc.?

Were the vision, goals and challenges translated by team leaders so they were relevant to the team or group members?

2.10 Supporting Channels
Are several information channels, i.e. news letters, formal meetings, internet etc., used to fully communicate the message?

2.11 Continuous Information
Was the information flow continuous and consistent over a long-term?

2.12 Two-Way Channel
Were the channels for communication two-way, thus making it possible for feedback from management and employees?
3. Structural Capability

3.1 Steering Committee
Did there exist a steering committee, i.e. senior executives of the new company working with strategy and direction?

3.2 Program Office
Did there exist a program office, i.e. people responsible for driving the integration forward and providing the guidance to day-to-day decisions?

3.3 Integration Teams
Were there specific integration teams, i.e. specialists focusing on integration of information technology, communication, human resources, etc.?

3.4 Separate Integration Structure
Did the integration structure separate from the core business?

3.5 Jointly Staffed
Did the integration structure balance members from both companies?

3.6 Working Full Time
Did the integration teams and the integration manager work full time with the integration?

3.7 Transition Team Leadership
Were the leaders of the transition teams also the leaders of the new organization after the combination?

3.8 Integration Team Leadership
Did there exist a process for assessing and selecting qualified integration leaders and managers?

3.9 Individual Accountability & Responsibility
Did the leaders who have significant impact on the success of the integration hold accountable, e.g. do they have a significant amount of their bonus tied to measurable success?

3.10 Team Building Activities
Did team building activities provide for the integration teams?

4. Project Management Capability

4.1 Capturing Associated Costs
Did a budget set up for the integration effort, where the different costs were determined and classified continuously during the integration process?
4.2 Resource Allocation Process
Was there a resource allocation process, i.e. process to prioritize key activities and most appropriate allocation of resources?

4.3 Integration Monitoring & Reporting
Was there integration reporting and monitoring, i.e. tight control exercised so to ensure updates are on time, according to a pre-established format, and with a thorough account of the integration work to date?

4.4 Learning Mechanisms
Were there learning mechanisms for future mergers, i.e. assessments of the quality of the transition effort to determine what changes might be appropriate during the next integration?

4.5 Alignment of Integration Efforts with Strategy
Were the objectives of the integration efforts linked with the strategic intent of the merger?

4.6 Standardized Integration Plan
Was there a standardized integration plan, i.e. what functions must be involved, how and when they should be involved, which people are responsible (for due diligence, planning and implementation), key tasks to be carried out, deadlines etc.?

4.7 100-Day Plan
Was there a 100-day plan covering all the issues where speed is important, i.e. key decisions to be made, game plans to retain customers, communication issues, HR issues, infrastructure issues etc.

4.8 Top Management Commitment
Was there top management commitment, i.e. support given to the integration project by making enough resources (money and people) available?

4.9 Risk Assessment
Was a risk assessment conducted in order to identify all risks in the integration process and prioritize them in accordance to their business criticality and complexity?

4.10 Risk Management Plan
Was there a risk management plan, i.e. a description of the possible risks based on the risk assessment and a plan to avoid or minimize those risks?

4.11 Permanent Tracking Process
Was there a system for tracking the development of the risks?

Was someone specifically responsible for the oversight of these risks?

5. Organizational Capability

5.1 Retention of Talent
Was there a retention plan, i.e. a plan for identifying and retaining key employees after the merger?
5.2 Staff Assessment & Selection
Was a common staffing, hiring, and promotion process that focused on the needs of the merged company’s strategy established?

Was the staff selection process transparent, fair and consistent where all decisions were based on accurate and comprehensive data?

5.3 Riffing
Were the terminated employees treated well during the downsizing, i.e. services to support displaced workers, e.g. helping them find new jobs etc.?

5.4 Top Leadership Assessment & Selection
Was a leadership assessment conducted in the business due diligence?

Was the leadership selection process transparent, fair and consistent where all decisions were based on accurate and comprehensive data?

5.5 Redefine Responsibilities & Reporting Relationships
Were management responsibilities and relationships (hierarchical structure) clearly allocated quickly after closing the deal?

5.6 Focus on Involvement
Was there a clear strategy for involvement, i.e. focus on involving employees and key organization leaders in the change efforts from the beginning to the end of the merger?

5.7 Focus on Customers
Is the middle management explicitly responsible for maintaining sales, prior to any other commitment?

6. Cultural Capability

6.1 Cultural Assessment of Acquirer
Has the acquirer carefully evaluated their culture, i.e. a self assessment?

6.2 Cultural Assessment of Target
Was there a cultural assessment of the target?

6.3 Decide on the new Culture
Were the desired organizational values and principles established, i.e. combining the strengths of both parent companies?

6.4 Assess Cultural Compatibility
Was there an assessment of the cultural differences and shared values?

6.5 Cultural Integration Plan
Was there a cultural integration plan?
6.6 Rules and Policies
Were rules that hindered integration identified and eliminated?
Were new rules and policies that reinforce the desired operations and culture created?
Was there a standardization of policies and procedures?

6.7 Training and Development
Where new training programs and routines established in order to create competency in the organization to implement the new processes and procedures?

6.8 Ceremonies and Events
Were events and ceremonies established to promote the new ways of doing things?

6.9 Leadership behavior
Was a system for rewarding/penalizing the managerial adherence to the desired behaviors established?

6.10 Rewards and recognition
Were the rewards and recognitions that reinforced the old methods and procedures replaced with new ones that were connected to the merged company’s desired ways of operations?

6.11 Physical environment
Was the physical environment changed to integrate the people in the organization?

6.12 Organizational structure
Was a new organizational structure established that reinforced the operational change?

7. IT Capability

7.1 T Assessment of Acquirer and Target
Was an IT assessment conducted on the acquirer and target?

7.2 Assess IT Compatibility
Were the differences between the two companies assessed, i.e. differences in programming languages, platforms etc.?

7.3 Technical Integration Tools
Was middleware available and used when required in both organizations?

7.4 Open Standard Software
Was the acquiring company’s IT systems mainly open standard software?

7.5 Enterprise Models & Documentation
Were enterprise models, documentation and ontologies available for defining and understanding the acquiring company’s organization?

7.6 Clear IT Vision
Was there a clear IT vision of the future of the post-merger IT systems, which aligns the direction of the IT integration effort with the merger goals?
7.7 Common System Platform
Was a common IT system platform chosen for the merged company?

7.8 IT Department Effectiveness
Did the IT department of the acquirer have enough high qualified, competent personnel and did they participate in the planning process?

7.9 IT Integration Plan
Was there an IT integration plan?

7.10 Cost/Benefit Justification
Was the change determined and justified at a productivity level, i.e. cost/benefit justification of the investment in terms of hardware, software and experts?

7.11 Training & Development
Was there an effective internal and external training plan, i.e. existence of a training plan for users and the staff for assigning (in the case of high integration level applications) the components of the chain (distributors, suppliers, customers)?
### Appendix 2: Framework References

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<tr>
<th>Number of Article/Letter of Person</th>
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Fredrik Vernersson, Principal at AT.Kearney, has a great deal of experience within different post-merger integration projects. Previous to working at AT.Kearney he worked at McKinsey & Co and at Framfab as integration manager in the pmi of Framfab and Guide.
Appendix 3: Merger Integration Capability Framework
A Framework for Merger Integration Capability Assessment

Cultural Capability

Culture Due Diligence
- [1][6][7][9]
- [16][19][20]
- [21][25][26]

Cultural Assessment of Acquirer
- [9][16][19][21]
- [25]

Decide on New Culture
- [6][7][9][19][A]

Cultural Integration Plan
- [25]

Cultural Assessment of Target
- [6][9][16][19]
- [20][21][25]

Assess Cultural Compatibility
- [3][6][7][9][14]
- [16][19][20][21]
- [25][A]

Ceremonies & Events
- [2][5][21]

Rules and Policies
- [12][14][21]

Training & Development
- [5][7][14][21]

Leadership Behaviour
- [9][14][19][21]

Rewards & Recognition
- [2][4][9][14][15]
- [21][25]

Physical Environment
- [21]

Organisational Structure
- [21]