

**Raphael König**

# Mergers & Acquisitions

Successful in managing integration processes

**Master's Thesis**

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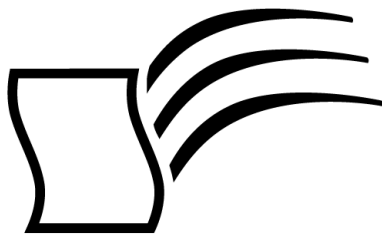
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*Successful in managing integration processes*

**MA-Thesis / Master**  
**South Bank University**  
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## **Abstract**

There is a wide body of evidence that suggests that the management of ‘human and cultural factors’ in post-M&A implementation is important and, where it is badly managed, helps to explain why up to two thirds of M&A deals are not deemed to be successful.

This master dissertation discusses, investigates, and reports on research of essentials which make an integration process in mergers and acquisitions successful. The focus of the project is on the consideration of human resource management and cultural integration concerning the pre as well as post-M&A phase. Indeed, integration starts already in the pre-M&A phase with an intensive human capital and cultural due diligence. Thoroughly selected key employees and a highly skilled communication program might be fundamental keeping on the right track. The discussion about cultural integration includes cultural fit, cultural change and managing across national cultures in mergers and acquisitions. Furthermore, a comparison of international human resource management practices in mergers and acquisitions provides some interesting issues in that field.

The factors discussed are based on a wide range of literature corroborated by some empirical findings published by international business consultants and scientists. Ultimately, the absolutely core message of this research is the issue that a comprehensive and sophisticated pre and post-M&A integration management leads to a successful transaction.



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## **1. Introduction**

In recent years, the number of domestic as well as cross-border mergers and acquisitions has grown significantly. The year 2000 could be titled as 'The year of M&A'. The two biggest transactions were AOL's purchase of Time Warner (USA) and Glaxo Wellcome's purchase of SmithKline Beecham (UK). [The Economist (1)] The hype of M&A was mostly based on the very well economic environment and therefore the extremely bullish stock markets. Some industries were faced on a thoroughly consolidation like the media industry and the automobile industry. The increasing importance of information technology (IT) has triggered the fantastic boom on NASDAQ and provided hundreds of companies high performance. The overall improving share prices have increased the value of such companies in order to evaluate market capitalisation. Thereby shares became more and more popular as a currency for M&A deals. Because of the huge bubble at the international stock markets, lots of shares were top-heavy and deals happened just to get bigger. The motto 'eat or be eaten' occurred to preventing the own company becoming a target itself. That means deals have obviously taken place without a detailed long-term planning, a clear structure of pre and post-merger integration as well as adjusting corporate culture, and an estimation of real value-added.

Worldwide mergers and acquisitions fell to \$1.90 trillion, measured by deal value, in 2001, down by 45% from 2000, as a slowing global economy cooled demand for new deals. [The Economist (2)] According to the business consulting firm Accenture, was the financial volume of mergers and acquisitions in Germany just 160 billion Euro in 2001. In addition, the consultants found that about seven billion Euro predicted synergies have not been realised. [Frankfurter Allgemeine Sonntagszeitung (2002)] In 2002, the M&A business is likely to decrease again after the low deal-rate in the previous year. A survey by KPMG found that 2002 the total value of global M&A deals has fallen 56% from \$1.02 trillion in the first half of 2001 to \$0.45 trillion in the first half of 2002. Looking at the downturn across the world's major regions, Asia Pacific took the biggest value drop (76%) compared to this time last year,

followed by USA which fell 61% by value. Western European values fared better at 49% below the first half of last year. The most active nations in the world were USA, UK, Germany and France. [KPMG (2002)]

Business newspapers such as Financial Times and Wall Street Journal are presenting immediately on their front page if companies are in talk or already steps further in negotiation. For instance, the now completed deal between Hewlett-Packard and Compaq or the spectacular acquisition of Go by EasyJet.

Although, there is currently no huge M&A-wave on the market, the M&A business is still of high relevance to the present situation. It is no secret that consolidation will go further in some industries, e.g. the banking sector, which will definitely include impressive M&A deals. [The Economist (3)] The decision about such transactions is at least up to the shareholders, who have to be convinced that a deal will provide additional value for the company's performance.

An excellent concept including a comprehensive and detailed pre-merger strategy, a thoroughly due-diligence and a smoothly transaction process as well as a sophisticated post-merger integration management is indispensable to be highly successful in managing mergers and acquisitions. Due to the enormous complexity of such a transaction this master dissertation is focused on the pre and post-M&A integration management particularly on human resource and cultural issues.

After this introduction, the following two sections outline the research structure and fundamental methodology issues. In detail, section 2 demonstrates the aims of research and underpins the usefulness of the study. Furthermore, this section includes the definition of seven research objectives. Section 3 considers the relevant research methodology and explains the data collection and analysis. This section ends with seven clearly defined propositions.

The literature review of this master dissertation starts with section 4 that identifies the principles of mergers & acquisitions. This unit gives comprehensive definitions by characterising the nature of M&A and provides an overview of the historical de-