INTERNATIONAL ACQUISITIONS: THE KEY TO SUCCESS IN THE EXPERIENCE OF ITALIAN COMPANIES

Gianluca Colombo, Valter Conca (*)

Abstract

Cross-border acquisitions often imply post-merger integration problems and cultural clashes. Despite the general acceptance of this concern, the literature is more interested in the wealth effect for the shareholders than in understanding the ways to improve post-merger performance. In this paper a model of post-merger integration is proposed and applied to a sample of cross-border acquisitions involving Italian companies. The research pinpointed the factors that have had the greatest impact on performance:
- an advance planning and the need to select a target company partly with an eye to the post-merger phase;
- the creation of a post-merger team involving one or more managers of the target company.
Besides, it has been demonstrated that the decision to change personnel produces extremely negative results. Lastly, the research indicates that a target restructuring strategy provide better results when a top-down approach is applied, while a bottom-up approach is better suited to integration strategies.

KEY WORDS: International, mergers and acquisitions, post-merger performance, cultural integration.

JEL Codes: G34

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1. PREFACE

In the past 20 years the major economic systems have experienced significant growth in foreign direct investments, in which an important role has been played by cross-border mergers and acquisitions.

In the literature the emerging phenomenon of international acquisitions has generated a specific field of interest in analyzing the special aspects of these deals with respect to those limited to the reference domestic markets.

Within this field of interest an initial problem concerns the possible motivations that could explain the international merger pattern.

The studies available in the literature, generally conducted on cross-border deals involving American companies, have identified a set of diverse motivations. Grubel (1968) and Jorion (1985) concentrated on the reduction of risk deriving from international diversification, while Harris and Ravenscraft (1991) theorize that the principal motivations concern the cost differentials of products and production factors among the various countries, imperfections in markets and in regulations and asymmetries of information.

In reality, these theories reflect the studies proposed and verified empirically beginning in the ‘60s and ‘70s by all the authors who analyzed the development strategies of the multinational enterprises.

Other authors (Froot and Stein, 1989 and Caves, 1990) feel that fluctuations in exchange rates are decisive for explaining cross-border deals; Kish and Vasconcellos (1993), on the other hand, found that interest rates and stock indexes exert a statistically significant influence on cross-border deals in the United States, while exchange rates only serve to foresee a trend.

The economists who defend the theory of agency costs (Amihud and Lev 1981; Jensen 1986; Morck, Schleifer, Vishny 1989) sustain that management can derive benefits from international expansion (in terms of remuneration, prestige and power) to the detriment of shareholders’ interests.

Still other authors have sustained that cross-border acquisitions are linked to fiscal aspects (Scholes and Wolfson 1990) or to different accounting practices (Choi and Lee 1992).

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1 This motivation can be traced to the theory of national differentials and transaction costs applied to the international context. In this regard, see:


In addition to the studies seeking to explain the causes of cross-border deals, there have been an equal number of those concerned with evaluating the effects of the deals concluded.

Empirical determinations on the success of acquisitions have followed two different paths in the literature.

The first, so-called financial economics, evaluates success on the basis of the stock market yield of the shares of the companies involved over given time horizons (typically one month, six months, one year)\(^2\).

The existing literature generally agrees in affirming that the greatest benefits deriving from acquisitions go to the shareholders of the target company, while they are more dubious for the acquirers.

Regarding cross-border acquisitions, Harris and Ravenscraft (1991) demonstrated that American target companies acquired by foreign concerns have shown greater increases in value than those acquired by American companies.

The results obtained by Harris and Ravenscraft were also confirmed by subsequent studies such as Cakici, Hessel; Tandon (1991 and 1996), Cebenoyan, Pepaioannou, Travlos (1992).

Regarding the bidder, Doukas and Travlos (1988) discover positive returns on foreign acquisitions abroad concluded by American companies in cases of entry into complete new geographical markets, while no benefits for shareholders were forthcoming if the acquiring companies were already present in the markets.

According to Morck and Yeung (1992), on the other hand, American acquiring companies realized positive returns when performance was linked to intangible assets based on technology and know-how.

Eun, Kolodny and Scheraga (1996), lastly, demonstrated that while positive returns can be shown for shareholders of American target companies, in cases of American acquisitions abroad there is a significant country-effect: Japanese companies have created value, while British firms generated no effect on value\(^3\).

The second approach used to evaluate the success of acquisitions is to measure the performance\(^4\) (economic, financial, commercial, etc.) of the companies before and after the acquisitions.

Healy, Palepu and Ruback (1990) sustain that in the sample they analyzed an increase in operating cash flows was observed following cross-border acquisitions and that the more the respective businesses of the companies concerned were

\(^2\) Some scholars have also analyzed the presence of “abnormal” returns when the operations are announced.

\(^3\) Kang (1992) demonstrated that in acquisitions conducted by Japanese companies in the United States there have been significant benefits for the shareholders of both companies.

\(^4\) Performance is measured by analyzing accounting data or by sending questionnaires to the top management of the companies concerned.
interrelated, the higher this increase was. The authors exclude that this effect is only short-term.

Very, Lubatkin and Calory (1996) studied the impact of the various national cultures on the success of cross-border acquisitions closed by American firms in France and the United Kingdom. The results confirm that success is affected by characteristic cultural aspects, but also that problems deriving from post-merger integration were more extensive in cases of acquisitions in the internal market than with cross-border deals (e.g. in the case of different organizational cultures).

This paper falls within this area of research, with the objective of identifying the key factors that lead to success in international acquisitions.

To this end, we analyzed a sample of 113 cross-border deals with at least one Italian counterpart completed in the 1988-92 period.

This paper utilizes the results of a research project launched in the ‘90s and pursued since then.

The project asked the top managers of the target and acquiring companies to consider the four different factors that were theoretically identified as having the greatest influence on the achievement of acquisition objectives. They are:

- transferability of resources and competencies between the partner companies;
- cultural and organizational integration;
- generation of consensus;
- times of adaptation and response to the change processes resulting from the acquisition.

These mechanisms were observed in three different approaches taken in the post-acquisition process:

- restructuring the acquired company;
- integrating the partner companies;
- leaving the acquired company in conditions of relative operational autonomy.

The structure of this paper is the following. Section 2 contains statistical data regarding size, direction and geographical areas mostly involved in cross-border acquisitions toward and from Italy. Section 3 develops the theoretical model on management of the post-merger process. Section 4 discusses the research methodology, while section 5 contains the results of the empirical study. Section 5 summarizes results and concludes the work.
2. THE ACQUISITIONS MARKET IN ITALY: TOWARD INTERNATIONAL INTEGRATION

Since the late ‘80s many companies have identified external growth strategies as a concrete response to their need to develop their competitive profiles.
In Italy the direction of growth by external lines is gaining marked acceptance, demonstrating the birth of an effective M&A culture, reflecting a trend already observed in more advanced economic systems. The evidence lies in the observation that the most active players are not just the major industrial groups but also smaller companies.\(^5\)

The acquisitions phenomenon, in fact, is radically changing characteristics: they are gradually becoming common tools for implementing competitive strategies. As a consequence, acquisitions are gradually losing their typical connotation of "exceptionality" and are increasingly being regarded by management as one of the various available alternatives for maintaining a certain level of competitiveness. That explains the active and gradually stronger involvement of smaller companies, historically more inclined toward internal investment strategies, judged less risky and more controllable: the M&A culture is spreading as a strategic solution increasingly independent of firm size.

Mergers and acquisitions are a potential vehicle for pursuing a vast range of objectives\(^6\) that would be difficult to achieve through internal solutions. In particular, it has been demonstrated that they have frequently been used as an instrument of change management (V.Conca, 1998), and this further stimulates interest in this field of study.

M&A international trend in the past ten years is confirming the conviction of many scholars that acquisitions and mergers occur in the form of cyclic waves, motivated by specific structural conditions, and that the current period is the peak of a new wave (Scherer 1970; Golbe, White 1988; Barkoulas, Baum, Chakraborty). M&A Italian market faithfully reflects this behavior as clearly shown in Figure 1. One notes, in fact, that the number of operations reached a peak in 1990, marking an end to the wave of acquisitions of the ‘eighties, and dropped to a trough in 1993, during the most critical phase of the recession in the early ‘nineties, confirming a basically pro-cyclic trend in M&A deals\(^7\). From 1994 there was steady growth in the number of operations that is still in progress.

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\(^5\) M&A Observatory–L. Bocconi University, M&A Report, 1999


\(^7\) It is generally felt that the merger trend slightly anticipates the economic cycle.
The value of the operations concluded showed smaller fluctuations up to 1995, while in the subsequent period it has multiplied rapidly, reaching in 1997 a value 2.5 times greater than that of 1990, when there were the largest number of operation during the entire period examined.

The growth in the average value of the operations is one of the primary characteristics of the new wave that is involving target companies of ever larger dimensions. The concentration at the international level (sometimes global) in many industries, the high costs of technological innovation, the use of innovative instruments of acquisition financing are only the principal factors that explain this trend.

One driving force in the M&A market is certainly the pursuit of strong international integration. In fact, the number of cross-border acquisitions remained stable during the period considered with respect to the internal market.

### Figure 1
*Size of the Italian mergers and acquisitions market, 1988-1998*

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of operations</th>
<th>Internal market</th>
<th>Italian acquisitions abroad</th>
<th>Foreign acquisition in Italy</th>
<th>Value of the deals (ITL mns)</th>
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<tbody>
<tr>
<td></td>
<td>Number</td>
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<td>641</td>
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<td>323</td>
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<td>857</td>
<td>480</td>
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</table>

Source: KPMG, Osservatorio M&A - L. Bocconi University

Nonetheless, from 1994 there was a sharp acceleration in the internationalization of the Italian economy, with international acquisitions almost doubling, from 205 in 1994 to 376 in 1998.
During the most recent period, the gap between foreign acquisitions in Italy and Italian acquisitions abroad has been narrowing, at least as far as the number of operations concluded. Regarding value, however, an estimate by the M&A Observatory of Bocconi University suggests that the incidence of value in foreign operations in Italy could reach 35-40% of the total market, with a consequent decline in the share of the domestic market.

Figures 2 and 3 show geographical source and target areas of the investments, determined on the basis of the name of the acquiring and acquired companies, i.e. overlooking the nationality of the controlling capital.

As the figures indicate, over half of the acquisitions were carried out by European companies (with a preponderance of French), followed by American firms, which conducted around one-fourth of them.

During the period considered, there were no substantial changes in the distribution by country, with the sole exception of an increase in acquisitions from Germany in the second half of the ‘nineties.

Figure 3 shows that Italian companies likewise favor investments on this continent, with particular interest to the French and Spanish markets.

Among the European Union member states indicated as “Others”, there are some differences between the two tables. In particular, the Netherlands is strong exporter of capital, while Greece, Portugal and Spain are particularly attractive target markets for many Italian firms. The same applies to South America, where the high number of acquisitions is linked to the socio-economic affinity between Latin areas, which facilitates the development of stable, successful business relationships.

### Figure 2

**Foreign investments in Italy, 1988-1998**

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Source: KPMG, M&A Observatory L. Bocconi University
Foreign investments in Italy are distributed among many economic industries, demonstrating that acquisition processes have come to involve the entire economic structure of the country.

The data shows in figures 4 and 5 reveal some highly interesting phenomena which help understand the various motivations underlying the internationalization of foreign direct investments.

The Italian firms most attractive to foreign investors operate in relatively traditional industries, such as foods and machinery, where Italian firms often hold leadership positions in market niches.

Acquisitions in the chemical industry are related to the gradual divestiture of assets by ENI, while the scant interest in the banking sector is the result of the small number of authorizations to acquire Italian banks issued by the central bank.

Italian acquisitions abroad reflect the industries in which Italian firms hold the greatest competitive advantages. This again is the case of foods and machinery but also certain areas of electronics, textiles and especially apparel.

A cross-analysis of the available data revealed some further characteristics of internationalization of the Italian economy, particularly:

- the specialization of a few countries in particular sectors of activity;
- the selection of sector-related and geographically contiguous markets;
- the natural expansion of traditional market confines;
- the degree of diversification of national economies.

French firms, for example, are particularly active in the food industry, where they exhibit a stronger tradition of penetration and competitiveness; U.S. firms, on the
other hand, have favored the electrical and electronic equipment industries and machinery.

The other industries show a relatively uniform distribution and little differentiation in terms of national penetration.

Figure 4

Sectors of Italian companies acquired by foreigners, 1988-1998

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Source: KPMG, M&A Observatory L. Bocconi University

Figure 5

Sectors of foreign companies acquired by Italians, 1988-1998

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<td>1</td>
<td>54</td>
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<tr>
<td>Others</td>
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<td>26</td>
<td>39</td>
<td>50</td>
<td>45</td>
<td>9</td>
<td>25</td>
<td>38</td>
<td>27</td>
<td>43</td>
<td>73</td>
<td>404</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>103</strong></td>
<td><strong>126</strong></td>
<td><strong>155</strong></td>
<td><strong>147</strong></td>
<td><strong>116</strong></td>
<td><strong>74</strong></td>
<td><strong>77</strong></td>
<td><strong>86</strong></td>
<td><strong>110</strong></td>
<td><strong>170</strong></td>
<td><strong>170</strong></td>
<td><strong>1226</strong></td>
</tr>
</tbody>
</table>

Source: KPMG, M&A Observatory L. Bocconi University
3. MANAGING THE POST-ACQUISITION PROCESS: A THEORETICAL MODEL OF APPROACH

Tangible experience demonstrates how difficult it is to successfully complete an acquisition operation.

The difficulties lie not so much in the closing of the deal, the first challenging objective to achieve, as in the terminal phase of the process, in which the acquirers measure whether they have achieved the strategic aims on which the decision was based. This is one of the most critical aspects of the process, since many companies still approach acquisitions with a view to capturing value rather than creating it.

Value creation strategies can be deemed valid for achieving particular objectives such as:

- financial intermediation;
- risk diversification;
- acquisitions that carry a meaningful “market dowry” with them.

In the first case, attention is focused on the comparison of acquisition price and market value, and the success of the acquisitions is manifested monetarily when the acquired company is resold to third parties.

In the case of an acquisition associated with a portfolio strategy, the approach is similar to the first case, except that the shareholding is managed for financial ends, without necessarily proceeding to successive divestiture.

If more general objectives are involved, however, success obviously can only derive from the ability to create value after the acquisition: the perspective is entirely the opposite.

The prevailing importance of value creating strategies over the mere capturing of an existing value can be objectively demonstrated by analyzing the motivations that normally drive the acquiring firms.

It is no coincidence that the most frequent motivations relate to the need to find a partner that will enable the acquirer to achieve a dominant market position or to exploit commercial, logistical or technological synergies.

Generally speaking, when the basic aim is to create a “strong synergistic relationship”, the capture of value is a necessary, but not sufficient, condition for achieving the strategic objectives.

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8 Post-merger management is all the more complicated in cross-border operations by additional factors such as different civil and fiscal legislation and greater geographical and cultural distances.
The acquisition of a company without a total or partial corporate restructuring, except for special cases, risks failure and sometimes contributes toward a gradual destruction of value.

Thus the phase of post-merger management becomes crucial.

While the analysis and prior evaluation of the target company (phases 1 and 2 of Figure 6) involve the “capture” of value, it is phase 3, post-acquisition integration, where new value must be created (Conca 1993).

The role of management thus becomes extremely critical, because the success of the operation is delegated to it from the moment of initial evaluation.

The acquisition and merger decision should be regarded, in reality, as an extremely complex process that involves the corporate structure, from the boardroom to the lowest operational levels.

Unfortunately, many companies are incapable of approaching the problem objectively. This is demonstrated by the numerous cases of failure motivated by the conviction of the acquiring companies to hold a "monopoly on success" (Morse, Feldman and Martin, 1990).

If acquisition is one way to implement business strategies, the company must undertake a process of value-based planning, in which management has the task of seeking an optimal, realistic combination of the two companies' resources through gradual integration, well planned in terms of timing and phasing.

The synergistic effect, by which the merger of a number of business and operations multiplies the benefits, will depend essentially on the degree of integration achievable among the businesses and the organizational structures. Phase 3, post-merger integration, therefore requires both strong strategic mutuality and total organizational integration.

A recent study (Sudarsanam, 1995) affirms in this regard that 80% of the managers who have concluded acquisitions later assessed as negative attributed the failure to the lack of a post-merger integration plan.

Many firms mistake is to defer their attention on integration problems to the post-acquisition period, taking it as a matter of fact that synergies will automatically develop by the mere fact of having acquired a company.

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10 Particularly interesting in this regard is the acquisition of Cameron Iron Works by Cooper Industries, described in Kaplan, Mitchell, Wruck (1997).
These premises prompt a spontaneous question: what critical factors must guide management in effectively managing the post-merger process? The problem is thus shifted toward the operational level: to identify the levers by which the desired synergistic potential can actually be developed. More specifically, we can trace the actions of post-merger value creation to a quest for four organizational imperatives (figure 7):
1. achieving cultural and organizational integration;
2. generating consensus;
3. transferring resources and competencies;
4. reducing adapting and responding time.

Activating these levers is the prerequisite for the basic structural conditions determining the capacity to generate the synergistic effect of “value liberation”.

Figure 6
Typical phases of the acquisition process
The first problem regards the cultural and organizational integration of two different entities that are called to confront a situation of forced cohabitation (Faulkner, 1995). The imperative of organizational integration underscores the multitude of problems to be resolved: in fact, there are primary barriers of a cultural nature and secondary barriers of a behavioral and procedural nature. In addition, there are links of a behavioral nature, i.e. the widespread presence of specific patterns of behaviour at the interpersonal and hierarchical-organizational levels that may impede the integration process. Likewise, there are difficult problems of integrating the formal procedures by which each organization governs the duties and responsibilities of each individual and each company function; classic examples are the need to standardize procedures related to the information systems for accounting and operations.

The following aspects generally help solving these problems:

- a clear transmission of values and objectives;
- an objective evaluation of the degree of autonomy of the acquired company;
- the selection of the best suited managers to handle organizational conflicts.

In many cases the formation of a joint “post-merger team” is an effective tool for overcoming the resistance and friction created during the process.

The second imperative focuses attention on the generation of consensus.
It is obvious that the problems of cohabitation, even more delicate in cases of merger, tend to emerge with increasing force as organizational integration proceeds. Consensus must arise from a participative, constructive attitude on the part of management and the entire company structure, avoiding embarrassing situations of constraint that in the long run prove totally ineffective. Obtaining a consensus is heavily affected by conditions of status and power enjoyed at the individual and hierarchical-functional levels. In these cases resistance and the pre-established patterns internal power must be determined in advance. The generation of consensus can be supported by exploiting the charisma of a few managers who are able to convince the structure of the advisability of reacting positively to the change in progress. The third imperative concerns the transferability of resources and competencies. This need is present when the acquired company loses its own strategic and operational autonomy or when it is precisely the acquired company that hold the expertise and competencies for success. The efforts must be aimed at creating osmosis between the two organizational units, without fostering a dangerous rejection crisis. The greatest difficulties relate to the appropriation of know-how by the new structure, especially when it is linked to human factors and is therefore largely intangible. While hardware know-how is usually quite simple to transfer, software expertise and experience cannot always be shared with other organizations directly, nor completely appropriated. The last imperative lies in planning the time required for adapting to the new structure and for responding to the new requirements that manifest themselves. The reference here is specifically to the need to foresee and possibly shorten the time required for the new integrated structure to operate "normally". In many company situations, the process of adaptation has been heavily jeopardized by the imposition of short-term restrictions and an exclusive emphasis on results. In these cases priority should be placed on the procedure for formulating, launching and managing the integration process regardless of results: these should automatically follow when the process has been property conducted. Again in this case clarity on tasks and responsibilities, as well as the desire to adequately motivate and stimulate the team involved in the process, are essential elements to reduce adapting and responding time.

4. RESEARCH METHODOLOGY AND OPERATING DEFINITIONS
In this survey has been studied a sample of cross-border acquisitions involving, at least, an Italian company.
International Acquisitions

Cross-border mergers and acquisition are company combinations in which the acquired and acquiring companies (or holding companies) belong to different countries.

In the sample acquisitions of minority interests were excluded. The initial sample consisted of 751 cross-border deals involving Italian companies either as the acquired or acquiring company. These deals were extracted from the database of the M&A Observatory of Bocconi University and closed in the 1988-1992 period.

The survey was conducted by sending the top management of both companies involved a detailed qualitative and quantitative questionnaire aimed at determining the degree of satisfaction achieved through the deals.

The final sample, composed of all the responses received, consisted of 113 acquisitions, representing a response rate of 15%: 80 operations were concluded by foreign companies in Italy and 33 by Italian companies abroad. The distributions by acquirer’s and acquired’s countries of origin were found to be consistent with the reference universe.

The success of the acquisitions was evaluated one and two years after the conclusion of the negotiation phase, based on the opinions expressed by the respondents. The interviewers suggested success indicators such as sales growth, increased profitability, achievement of planned objectives and so forth.

In conducting the survey, the general reference model described above was applied to three different ways of conducting the post-merger process: integration, restructuring and autonomous operation of the acquired company.

For purposes of the survey, integration was defined as the policy that leads to the combination of company structures for the purpose of sharing resources and constructing a single entity, safeguarding the core competencies of the individual companies.

The purpose of restructuring is not to create a unified whole of structures and resources but rather to transform the acquired company for the purpose of creating new value by managing the change processes (Copeland, Koller, Murrin 1990; Conca 1998).

Autonomy of the acquired company is used here to mean the circumstance in which the acquirer adopts no policy of either integration or restructuring.

These ways of conducting the integration process related to the types were identified by Haspeslagh and Jemison (1991). These authors sustain that management of the post-merger process is affected by two principal factors: strategic interdependence

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11 This definition of acquisition is generally accepted in the literature. In this regard see Marren (1993), Sudarsanam (1995), Gaughan (1995), Weston, Chung, Siu (1998). These authors, though not
and organizational autonomy\(^{12}\), combinations of which generate four principal modes: symbiosis, absorption, preservation and holding\(^{13}\).

Symbiosis, characterized by a high degree of interdependence and organizational autonomy, requires integrated management of the post-merger process, since the two organizations that initially coexist and tend to remain autonomous and maintain their own cultures at the same time become increasingly interdependent. This type belongs to the mode that we have called “integration”.

Absorption is typical of a situation in which a high degree of interdependence is accompanied by a limited need to maintain the organizational autonomy of the acquired company. In such cases it usually become necessary to restructure the target during the post-merger period.

The other two types identified by Haspeslagh and Jemison can be readily associated with the remaining class, which was generically defined as *autonomy*. The companies interviewed declared that in 38% of the cases they had pursued a strategy of integration, in 33% a strategy of restructuring and in 29% had left broad autonomy to the acquired company.

5. THE RESULTS OF THE EMPIRICAL RESEARCH

In this section the results of the survey will be presented following the logic of the theoretical model described in § 3.

First we shall examine the aspects associated with the involvement of management, at both the strategic and operational levels, in the operations included in the sample analyzed.

Then the analysis will examine:

- the modes of transferring resources and skills;
- the process for planning international acquisitions;
- the problems associated with cultural and organizational integration;
- the decision regarding consensus building;
- the policies of communicating the expected objectives of the operations both inside and outside the organizations.

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12 Strategic interdependence is used to mean the need for a common use of resources which requires the transfer of functional skills (§ 3 above) and general managerial capabilities, while organizational autonomy consists of preserving the differences between the companies (Haspeslagh, Jemison, op.cit.).

13 For an application of Haspeslagh and Jemison’s types to the transferability of R&D projects, see Hakanson (1995).
5.1 THE INTEGRATION OF STRATEGIC VISIONS

The research seems to confirm that the success rate is higher for acquisitions in which strategic visions are transferred or integrated through management of the post-acquisition phase. The involvement of some members of top management of the acquired company, and particularly those most involved in managing critical functions (knowledge development, product and process innovation, relations with the market, etc.), during this phase is thought to be a valid way of transferring and integrating strategic visions (Haspeslagh, Jemison 1991).

**Figure 8**

_Involvement of acquired company top management in the post-acquisition phase_

<table>
<thead>
<tr>
<th></th>
<th>Acquired company top managers were involved in the post-negotiation phase</th>
<th>Acquired company top managers were not involved in the post-negotiation phase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Results after one year</strong></td>
<td>Positive 71%</td>
<td>Positive: 53%</td>
</tr>
<tr>
<td></td>
<td>Negative 29%</td>
<td>Negative 47%</td>
</tr>
<tr>
<td><strong>Results after two years</strong></td>
<td>Positive 55%</td>
<td>Positive 42%</td>
</tr>
<tr>
<td></td>
<td>Negative 45%</td>
<td>Negative 58%</td>
</tr>
</tbody>
</table>

Since it has been demonstrated that allowing the former executives to retain shares of capital in the acquired company is one of the possible causes of failure (see Figure 9), one deduces that their involvement should take forms other than share ownership. This leads to a conclusion that runs counter to Anglo-Saxon practice and to part of the technical literature, in which various forms of "earn-out" are a frequent approach to paying for the acquired capital, assuming that said forms reduce the risk of the operation by giving shareholder-managers a stake in its success.

In other words, the following dilemma arises: to successfully conclude an international acquisition in which an Italian company is involved, a part of top management must be involved but without leaving them an equity interest.
One possible solution to the foregoing problem is to combine strategic alliances with acquisition operations. Strategic alliances with the company subsequently selected for acquisition, in fact, facilitate the transfer and integration of strategic visions, thus reducing the need to involve executives with shareholdings or reducing the negative impact of those shareholdings. In more general terms, prior relations with the acquired company are a success factor, as shown in Figure 10.

The foregoing observation positions acquisitions within a process of international alliances and agreements that, through the accumulation of reciprocal know-how, facilitates the selection of the acquisition candidate and reduces problems in the post-negotiation phase. Particularly regarding the transfer and integration of strategic visions, prior relationships have a direct influence on the process by shifting it to the pre-acquisition period. Acquisitions that are part of a process of strategic alliances tend to be non-opportunistic acquisitions, which seem to offer the best results. The observations advanced here confirm the importance of certain management levers, illustrate in Figure 7. In particular, prior alliances facilitate cultural and organizational integration and reduce adaptation and response times. As for the transfer of resources and competencies, if the alliance is a success, it is sometimes possible to accelerate the transfer processes and make the post–negotiation phase of
the acquisition less critical. Consider, however, that if the alliance fails to produce the expected results, these are not necessarily possible through a subsequent acquisition. Similar considerations also apply to the generation of consensus. With reference to the procedure for managing the post-negotiation phase, it is evident that the principal problems of transferring strategic visions are manifested primarily in strategies to integrate the partner companies and secondarily in the restructuring of the acquired company, since they are less important when it is decided to leave the acquired company autonomous (strategy of independence or separation). The difficulties encountered in transferring strategic visions help explain the relatively poorer performance observed in the sample of companies that pursued a strategy of integration. After overcoming the initial difficulties, in the case of integration, the best results are obtained precisely by involving top managers of the acquired company (data after two years).

With reference to the retention of shares of capital by former top managers, the worst effects are produced in the case of restructuring. In the case of integration strategies, however, the results seem better, at least in the medium term. This is further confirmation of the time horizon on which integration strategies should be positioned. Companies capable of successfully managing this delicate transition are in a position to reap the benefits deriving from the availability of a broad set of contributions and critical resources.

5.2 THE TRANSFER OF MANAGERIAL SKILLS AT THE OPERATIONAL MANAGEMENT LEVEL

The transfer of managerial skills in operational management between the companies involved in international acquisitions is an important success factor, especially in the case of acquisitions involving related businesses, which have been shown to produce results above the sample average. The research confirmed that acquisitions in which there has been a transfer of operational management skills show better results.

This hypothesis is consistent with the literature, which links performance to the quality of the resources and to the critical business competencies (Rumelt 1974, Prahalad and Hamel 1990). In the survey, the transfer of competencies and

---

14 Sixty-nine percent of the companies that have made acquisitions in related sectors show positive results two years after the end of the negotiation phase; only 57% of the unrelated acquisitions produce positive results after two years.

managerial skills resulted from a combination of transferring operational mechanisms and transferring managers. Both components were found to be more critical when the strategy involved integration than in cases of restructuring or, of course, autonomy. One may therefore conclude that effective integration between the companies involved in the acquisition is determined especially by the ability to manage the transfer of those competencies. On the other hand, companies that declared they were pursuing a strategy of integration, but without succeeding in transferring managerial competencies, in effect achieved a strategy of independence, displaying relatively worse results. This demonstrates that the distance between deliberate strategy and emergent strategy (to use the conceptual scheme of Mintzberg 1985;198716) is a failure factor in international acquisitions.

Regarding management style, whether primarily authoritarian or consensual, we refer you to the observations on management styles in the post-negotiation process. The following section examines some hypotheses regarding the transfer of managerial skills as related to managing the personnel of the acquired company.

It compares two ideally alternative procedures which in actual practice often blend to form various combinations:

- human resource management based primarily on the replacement and dismissal of the personnel of the acquired company;

- management based primarily on the training and transfer of personnel between the companies involved in the acquisition.

The sample of international acquisitions observed seems to confirm that in integration strategy the policy of training and transferring personnel generally provides better results, especially in the medium term. Also in restructuring, personnel management based on consensus is more effective than that based on imposition. See, in this regard, the results of Figure 11 and of Figure 12). Taken as a whole, these observations confirm what is illustrated in section 7, regarding the generation of consensus.

Figure 11
Managing human resources in integration strategies

<table>
<thead>
<tr>
<th></th>
<th>Prevalence of replacements and dismissals</th>
<th>Prevalence of training and internal transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results after one year</td>
<td>Positive 15%</td>
<td>Positive 64%</td>
</tr>
<tr>
<td></td>
<td>Negative 85%</td>
<td>Negative 36%</td>
</tr>
<tr>
<td>Results after two years</td>
<td>Positive 20%</td>
<td>Positive 75%</td>
</tr>
<tr>
<td></td>
<td>Negative 80%</td>
<td>Negative 25%</td>
</tr>
</tbody>
</table>

Figure 12
Managing resources in restructuring strategies

<table>
<thead>
<tr>
<th></th>
<th>Prevalence of replacements and dismissals</th>
<th>Prevalence of training and internal transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Results after one year</td>
<td>Positive 20%</td>
<td>Positive 35%</td>
</tr>
<tr>
<td></td>
<td>Negative 80%</td>
<td>Negative 65%</td>
</tr>
<tr>
<td>Results after two years</td>
<td>Positive 52%</td>
<td>Positive 55%</td>
</tr>
<tr>
<td></td>
<td>Negative 48%</td>
<td>Negative 45%</td>
</tr>
</tbody>
</table>

The results of Figure 12 are deserving of closer examination, especially if compared to those discussed in section 14, where it is demonstrated that in restructuring a hierarchical approach is preferable. It would seem, in fact, that better levels of success were achieved by companies able to combine personnel management based on motivation and identification with the top-down approach typical of corporate restructuring.

5.3 THE IMPACT OF PLANNING ON THE RESULTS OF ACQUISITIONS

The research also demonstrated that companies that planned their acquisitions achieved better results than companies that adopted emergent or opportunistic strategies. This also agrees with the considerations advanced above (§ 3) regarding the need to manage the post–acquisition processes in advance. In this regard, see the results illustrated by Figure 13.
Acquisitions for which the companies declared their primary motivations to be financial, or simply "a good opportunity", are considered opportunistic. All the other operations are considered to be the result of deliberate strategy. The companies were then asked if they had prepared acquisition plans prior to the negotiation phase. Indications are that the preparation of such plans always provides better results, but that the positive impact of the planned approach is maximized in the case di deliberate acquisitions.

The capacity for good advance preparation also seems to manifest itself especially with reference to the strategy di restructuring, where clarity and rapid intervention are conditions for success. On the contrary, an integration strategy requires, first, management attentive to the dynamics of processes and, then, flexibility of realization that could sometimes be jeopardized by rigidly following the acquisition plan\textsuperscript{17}.

See in this regard the results illustrated in figures 14 and 15

\begin{figure}
\centering
\begin{tabular}{|c|c|c|}
\hline
 & Partner compatibility discussed in the negotiation phase & Partner compatibility not discussed in the negotiation phase \\
\hline
Results after one year & Positive 50\% & Positive 35\% \\
 & Negative 50\% & Negative 65\% \\
\hline
Results after two years & Positive 67\% & Positive 50\% \\
 & Negative 33\% & Negative 50\% \\
\hline
\end{tabular}
\caption{Planning level and acquisition results}
\label{fig:planning_results}
\end{figure}

\begin{figure}
\centering
\begin{tabular}{|c|c|c|}
\hline
 & Existence of a plan & Nonexistence of a plan \\
\hline
Approach based on rapid change & Growth in results: +6.6\% & Growth in results: -0.6\% \\
\hline
Approach based on detailed planning & Growth in results: +2.5\% & Growth in results: +8.7 \\
\hline
\end{tabular}
\caption{Importance of a restructuring plan}
\label{fig:restructuring_plan}
\end{figure}

\textsuperscript{17} On the conditions for success of formal planning systems, see V.Conca, "Pianificazione e management nelle imprese italiane; riflessioni sull'esistenza di modelli emergenti per una nuova impresa", \textit{Finanza, marketing and Production}, n.3, September 1997, EGEA.
The tables also contain interesting information regarding the choice in change management between favoring the rapidity of implementation and emphasizing attention to details, even at the cost of slowing down the change process. If improvement in profit results between the second and first year after acquisition is taken as an indicator of success, the following hypothesis is confirmed: Companies that have favored meticulousness over speed of change show better results than those that followed the opposite strategy; this is also confirmed in the case of restructuring.

5.5 The creation of formal teams for managing the post-negotiation phase

The literature assigns great importance to managing the post-negotiation phase and, more specifically, advances the hypothesis that advance management of organizational compatibility problems is a condition for success. It has been further demonstrated that the creation of teams of managers with the specific task of pinpointing the organizational problem areas and proposing solutions right from the negotiation phase and, afterwards, managing the problems as they emerge, is a success factor for acquisitions, especially when the intention is to integrate the production structures to exploit synergies between the businesses of the companies participating in the acquisition (Needham 1987; Rouse 1987; Colombo18). Most of

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this literature is anecdotal, based on the study of one or more clinical cases (comparing cases of success and failure). Another topic of debate is the composition of these teams, since there are no clear indications regarding the inclusion of managers from the acquired firm. It is assumed that those managers should be included in the group charged with managing post-negotiation problems, but that for reasons of confidentiality they are often not included in the negotiation phase (Colombo 1992). Observations on the sample of international acquisitions in the survey confirm the following hypothesis, consistent with the conclusions set forth above (§ 3):

The creation of formal teams for managing the post-negotiation phase is a condition for success in international acquisitions; this success is maximized by the involvement of managers from the acquired firm.

**Figure 16**

*The impact of a team to manage post-negotiation processes*

<table>
<thead>
<tr>
<th>Involve managers from the acquired company?</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creation of a team to manage post-negotiation</td>
<td>Growth in results + 5%</td>
<td>Growth in results: +3.6%</td>
</tr>
<tr>
<td>Absence of a team for managing post-negotiation</td>
<td>Growth in results: - 0.6%</td>
<td>Growth in results: +0.2%</td>
</tr>
</tbody>
</table>

The involvement of the partner on these teams can sometimes generate bottlenecks in the organizational change process, but it enhances precision because of the wealth of information from sources inside the acquired company and the elimination of resistance to change through consensual management of the process. It was demonstrated earlier that precision has a greater impact on results than rapidity of change. One may therefore conclude that integration teams comprising managers from the acquired firm are particularly effective in realizing the organizational changes consequent to the acquisition. This is especially true for integration and restructuring strategies.

Guiding managerial teams that include managers from different companies and different countries of origin obviously involves a high degree of complexity. It is therefore not surprising that the best results are obtained in the medium term, since the negative effects of the familiarization process between different company and

country cultures—a significant variable in the model illustrated in Figure 7—must be absorbed in the short term.

5.6 THE CONSENSUS-IMPOSITION DILEMMA IN MANAGING THE POST-NEGOTIATION PHASE

The choice of style for managing change in the acquired company is regarded by the literature and by company practice as a crucial success factor in the operation. While a top-down (hierarchical) approach seems to facilitate rapidity, the search for consensus would help avoid the loss of competencies and resources resulting from the exodus of managers from the acquired firm (Walsh 1988\(^{19}\)). In other words, a consensual style would be consistent with strategies based on resources and on core competencies (Rumelt 1974; Prahalad and Hamel 1990). The sample of international acquisitions observed would seem to confirm the following hypothesis:

The top-down approach is preferred in restructuring and produces better results than the bottom-up approach; there is no prevalent approach in integration, but the bottom-up approach ensures the best results, especially when attention to detail is favored over rapid results.

In this regard, see the results illustrated in figures 17, 18 and 19.

**Figure 17**

**Prevaling management styles and operation results**

<table>
<thead>
<tr>
<th></th>
<th>Preferred styles</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restructuring strategy</strong></td>
<td>Top-down 67%</td>
<td>Growth in results: +4.7%</td>
</tr>
<tr>
<td></td>
<td>Bottom-up 33%</td>
<td>Growth in results: -1.6%</td>
</tr>
<tr>
<td><strong>Integration strategy</strong></td>
<td>Top-down 50%</td>
<td>Growth in results: +0.2%</td>
</tr>
<tr>
<td></td>
<td>Bottom-up 50%</td>
<td>Growth in results: +7.1%</td>
</tr>
</tbody>
</table>

**Figure 18**

**Management styles and attention to detail in restructuring strategies**

<table>
<thead>
<tr>
<th>Approach based on the rapid change</th>
<th>Top-down style</th>
<th>Bottom-up style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in results: +2.3%</td>
<td>Not applicable</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approach based on detailed planning</th>
<th>Top-down style</th>
<th>Bottom-up style</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in results: + 8.7%</td>
<td>Growth in results: -1.6%</td>
<td></td>
</tr>
</tbody>
</table>

Whatever management style is selected, there is still the problem of deciding whether to involve part of the management of the acquired company, during the negotiation phase, in the analysis of the requirements for strategic and organizational change. If the change management style array is crossed with the partner involvement array, the resulting matrix offers some orientation in change management policies based on the post-negotiation strategy selected (see figures 20 and 21).

This would confirm that the best results in restructuring are obtained by applying a strategy described by the pairing “top-down and non-involvement of partner”, while in integration the best performance if furnished by the pairing “bottom-up and
involvement of a few managers of the acquired company starting in the negotiation phase”.

5.7 COMMUNICATION STRATEGIES IN MANAGING THE POST-NEGOTIATION PHASE

What to communicate? When? How? Managers who must direct the post-negotiation phase often ask themselves these questions. Confidentiality requirements do not always permit extensive, diffuse, complete communication. Problems unresolved during the negotiations hinder the communication process. Transparency in communication would seem, however, to constitute a condition for success in integration strategy. In international acquisitions, the communication processes are further complicated by the cultural distance between the managerial teams of the two companies (Perry 1986; Burke 1987; Colombo 199220).

Some characteristics of communication have been identified: a degree of formalization and the preference for a gradual approach, on the one hand, rather than a procedure centered on complete, immediate communication of the changes, on the other. The choice between formality and informality is a classic theme in communication management. It is generally believed that as organizational complexity increases a combination of formal and informal communication is required (Colombo and Comboni 199121). In the case of international acquisitions, it is also advisable to remember that the models of management in the various countries also differ by the varying degree of propensity to informality in communication processes: the Italian model would seem to stand out for the intensity of informal communication (Colombo and Motemerlo 199222). The second dimension of analysis relates to the degree of attention to the procedural aspects, since complete communication seems consistent with the objective approach, while gradual communication fits the context of the process approach (Normann 197923). Crossing the two dimensions described above with integration and restructuring strategies confirms the following hypothesis:

The ability to exploit informal channels of communication is always a condition for success: especially in integration strategy, informal communication has a positive impact on the results of the acquired company.

The communication described as “gradual” provides better results in all cases than the “complete” type. This is especially true in restructuring strategy.


The following results are interesting in this regard.

**Figure 22**

*Type of communication and results of acquisitions: degree of formality*

<table>
<thead>
<tr>
<th></th>
<th>Formal communication</th>
<th>Informal communication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restructuring strategies</strong></td>
<td>Growth in results: -9.7%</td>
<td>Growth in results: +1.1%</td>
</tr>
<tr>
<td><strong>Integration strategies</strong></td>
<td>Growth in results: +2.3%</td>
<td>Growth in results: +3.2%</td>
</tr>
</tbody>
</table>

**Figure 23**

*Type of communication and results of acquisitions: the degree of detail*

<table>
<thead>
<tr>
<th></th>
<th>Gradual communication</th>
<th>Complete communication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Restructuring strategies</strong></td>
<td>Growth in results: +2.4%</td>
<td>Growth in results: -11.5%</td>
</tr>
<tr>
<td><strong>Integration strategies</strong></td>
<td>Growth in results: +0.5%</td>
<td>Growth in results: -0.5%</td>
</tr>
</tbody>
</table>

This would seem to confirm the superiority of the process approach, as well as informal communication, even in circumstances where a hierarchical management style proved successful. This is an interesting conclusion, since it suggests a different way of viewing the top-down approach, generally associated with highly formal and tendentiously "rapid" communication. This suggests the hypothesis that management attentive to procedural aspects and capable of creating informal channels of communication is successful even when no attempt is made to manage the acquisition on the basis of consensus.

**6. CONCLUDING REMARKS**

Growing internationalization in many sectors has been one of the factors most strongly characterizing the past decade, virtually forcing companies to decide to bolster their presence in foreign markets that they had previously exploited little or not at all.

This phenomenon has resulted in a gradual extension to countries traditionally closed to international competition and the involvement of companies smaller than those actors in the preceding period.

Both these factors have strongly impacted Italian companies, whose strategies for foreign market penetration, based on highly flexible instruments, have now proved inadequate.

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Their strategic response has often been to grow through international acquisitions which enable them to acquire position in foreign markets rapidly. On the other hand, those Italian firms that have understood the need for international expansion have frequently been the targets of acquisition by foreign companies.

In the literature (§1), the correlation between market internationalization and cross-border acquisitions also seems an established fact, at least as a basic factor often strongly influenced by economic phenomena (e.g. trends in interest rates and the securities and currency markets).

Along with the advantages associated with an external growth strategy, it has often been stressed (particularly by Very, Lubatkin, Calori, 1996) that international acquisitions require special approaches to post-merger management processes. Empirical research on the results of cross-border operations has failed, in fact, to produce univocal findings. It has often been conducted from the perspective of financial economics, however, which cannot reveal the reasons behind the success or failure of an operation.

Herein lies the original aspect of this paper, which by analyzing the entire acquisition process for a sampling of cross-border operations with an Italian counterpart has pinpointed the factors that have had the greatest impact on performance.

In line with the hypotheses developed by Haspeslagh and Jemison (1991), the first significant factor regards advance planning and the need to select a target company partly with an eye to the post-merger phase. In many cases, in fact, excessive focus on strategic fit causes companies to overlook the problems of integration, which could be so serious as to nullify potential synergies. It has also been demonstrated that alliances or forms of collaboration prior to the acquisition greatly increase the probabilities of success.

Among the levers proposed in the integration model (§3), the research revealed that the creation of a post-merger team is a success factor that is maximized when one or more managers of the target company are involved.

The involvement of the acquired company’s top management facilitates the integration process, as contemplated in the theoretical model, but this occurs predominately in total acquisitions.

Regarding the more strictly organizational aspects, it has been demonstrated that the decision to change personnel through replacements or dismissals produces extremely negative results. This contradicts the theory of the market for corporate control, which points to the replacement of management and inefficient personnel as one of the possible motivations for acquisitions.

The research also studied the links between the performance of cross-border operations and acquisition strategies. Results indicate that different approaches are associated with the two different strategies: restructuring strategies provide better
results when a top-down approach is applied, while a bottom-up approach is better suited to integration strategies.

The fact that restructuring strategies produce better performance after two years might lead one to conclude that international acquisitions are easier to manage where a primarily top-down approach is required. One must consider, however, that the integration strategy, despite its marginal success in the survey, could be capable of generating positive results but over a longer period than the one considered, provided, of course, that the markets accept such lengthy time horizons.

The conclusions reached paint a highly complex picture and require further refinement. Particularly evident are the limitations of an assessment based only on profit and loss parameters, compared to one based on value, more proper in methodological approach but certainly more difficult to measure. Nonetheless, this research helps demonstrate that success in M&A operations is not automatically or easily achieved. It depends, rather, on a complex process that transversely involves the entire company and requires the involvement of its best managerial resources.
7. BIBLIOGRAPHICAL REFERENCES


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