“What are the formal and informal factors critical in the post-merger integration, contributing to successful mergers?”

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INA HELENA RINGK SETERBAKKEN

WHAT ARE THE FORMAL AND INFORMAL FACTORS CRITICAL IN THE POST-MERGER INTEGRATION, CONTRIBUTING TO SUCCESSFUL MERGERS?

Dissertação apresentada ao Curso de Mestrado Profissional Executivo em Gestão Empresarial da Escola Brasileira de Administração Pública e de Empresas para obtenção do grau de Mestra em Administração.


ASSINATURA DOS MEMBROS DA BANCA EXAMINADORA

Marco Tulio Fundão Zanini
Orientador (a)

Marcos Lopes Rego

Luis Fernando Filardi Ferreira
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<th>Description</th>
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<tr>
<td>OEM</td>
<td>Original Equipment Manufacturer</td>
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<tr>
<td>PMI</td>
<td>Post-merger Integration</td>
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<td>M&amp;A</td>
<td>Merger and Acquisition</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>Q&amp;A</td>
<td>Question and Answer</td>
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<td>CRM</td>
<td>Customer Relationship Management</td>
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1 Abstract

The thesis explores the factors to consider for a successful post-merger integration. The hypothesis states that there are several levels of formal and informal factors critical in the post-merger integration contributing to successful mergers. The main focus of companies has typically been on addressing possible synergies and financial effects. However, while analyzing the outcome of merger and acquisitions it has been seen that 70 to 90 percent of mergers fail to meet the long term financial goals over time.1 This indicates that the assessment of possible partners for a merger may not be the most effective. This thesis argues that factors such as organizational and cultural compatibility need to play a stronger role when selecting a partner to merge or acquire.

2 Introduction and Relevancy

Mergers and acquisitions (M&A) are a proven measure for companies to significantly influence their development.2 International exposure of firms, globalization and worldwide competition define the need for consolidation as a strategic tool for companies to be able to keep their competitive advantage.3 Especially when comparing to the option of a less short term orientated organic growth, M&A present an option for rapid expansion.4

After the financial crisis in 2007 and 2008 the number of national as well as international M&A transactions decreased. When the world economy recovered again, a parallel increase of M&A activities were noted.5 These deals can be worth millions or billions of dollars and can decide the future or the companies merging. In 2015, 4.7 trillion USD worth of deals were announced. Several mega-deals were made: AB Inbev’s acquisition of SAB Miller, Pfizer and Allegan, DuPont and Dow Chemical Company and Thomson Reuters. These are just a few of the groundbreaking deals struck in 2015.6

Normally, the justification for M&A’s is to reduce cost and increase revenues from a greater market share. Furthermore, interest rates were at a historic low and corporate cash reserves made these deals possible. The trend has also continued in 2016. The possible growth and synergy potentials come with a risk. The question is will these mergers have the results that the

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companies wish for, a few years from now. Often, these deals are struck by executives as indi-

viduals and it is hard to predict the realistic outcome. Depending on the study, it has been shown
that normally 70 to 90 percent of mergers fail to meet the long term financial goals over time.\footnote{Cf. Lam, B (2016), http://www.theatlantic.com/business/archive/2016/01/2015-mergers-acquisitions/423096/} Despite the considerable risk of failure, M&A are standard procedures of successful manage-
ment practices. Often the result is only to become a bigger company and not a higher total value.\footnote{Cf. Müller-Stewens, G. /Kunisch, S. /Binder, A. (2010), S. 11.}

The reasons for failure in M&A transactions are as multiple. Consulting companies as well as
scientist research mention the disregard for the corporate culture as a factor for failure in about
50% of all failed mergers.\footnote{Cf. Homma, N. /Bauschke, R. /Hofmann, L. (2014), S. 152f; Wanzel, C. /Heinritz, D. /Berkemer, M. (2012), S. 28.; Arlinghaus, O. /Balz, U. (2009), S. 317.} Corporate culture has often been dispatched as less relevant informal
factor in order to focus on formal factors such as the price or other financial indicators. Today
the importance of considering culture and organization during the process of evaluation of a
merger has been understood as necessary.\footnote{Cf. Grosse-Hornke, S. /Gurk, S. (2009a), S. 270; Arlinghaus, O. /Balz, U. (2009), S. 317.}

Corporate culture and organizational structures as success factors in M&A has been center of
analysis in several scientist investigations. Yet a transfer to real life cases with concrete instruc-
tions for action, methods and instruments for implementation are rare. Additionally, it is a com-
plicated topic that still lacks data to be presented. Thus, corporate culture remains an intangible and
unconsidered value in most companies.
3 Objective and Hypothesis

The reasons for failures of M&A’s are multilayered. However, five main reasons for M&A’s have been identified: “to reduce capacity, to implement geographic expansion, to extend product lines, to acquire R&D capability and to exploit emerging convergence of industries”\(^{11}\) Other reasons are financial synergies, tax efficiency and a strategic fit between buyer and seller’s current operations.\(^{12}\)

Different strategic backgrounds on the decision to merge companies imply different post-merger approaches to integration. Fields concerning M&A that have been researched, but are still complicated to understand, are the organizational theory on how to combine two entities that were formerly independent as well as Human Resources focusing on the psychological and leadership issues in M&A’s.\(^{13}\)

The objective of this thesis is to analyze the success factors of M&A activities focusing especially on corporate culture and organizational review.

There are several phases in the process of acquisition. Starting from when the selection of the partner needs to be made, each phase has its possible complications and factors that will affect the overall outcome. The thesis will concentrate mainly on the post-merger integration phase. More than a definition of time as in starting when the deal is signed and there is no going back on the decision, a process approach to post-merger integration (PMI) will be used. This phase determines if the planning was successful and will show the ultimate compatibility of the two partners in the merger. To further concentrate the focus of the topic, informal and formal factors that are critical for the success of the integration will be put into focus. Concluding, the hypothesis will be as follows:

“\textit{What are the formal and informal factors critical in the post-merger integration, contributing to successful mergers?}”

Based on the theoretical state of analysis as well as the urgency of the topic a special importance will be given to a practical approach and feasibility. This thesis is written in an action orientated case study format. This means that about 50% is necessary theoretical background. The heart of the analysis is the description of a real case and the proposition on actions to be taken. The

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thesis will deal with the factors important for the success of the integration of two companies. Now, the hypothesis for the master thesis has been established. In the next step, the theoretical background on the topic will be addressed. Followed by, the case that will be analyzed in detail. To finish up, the action plan and lessons learned will be given.
4 Merger and Acquisitions

4.1 Reasons for M&A Transactions

It is important for a company to assess their strategy in order to define what their underlying objective for a M&A transaction is, and then decide for the optimal partner. "Goals for this increasing popular strategy converge around themes including growth, diversification, and achieving economies of scale".14 Growth refers to expansion of markets in which it is thought that it will be faster and more efficient to enter through acquisition instead of organic growth. The optimal situation is, when the two business lines complement each other. Increasing the market share is thus one of the main goals. This could surge to reducing the competitors’ power in the market of even pushing him out completely as being the motive for the M&A transaction. Diversification is another important reason for M&A. It can allow the company to go into other lines of business and expand their product portfolio. It also allows companies to diversify the risk as it is set up broader. Companies can get access to new consumer groups or position the image in a new way. Market leadership is especially important in relation to shareholder value if a company is listed at the stock exchange.15 Managerial competence or employee expertise might play a role in the decision about an M&S transaction as well as distribution resources or a possibility to increase brand equity.16 Additionally, to the objective reasons there are some personal reasons that sometimes play quite an important role. One of these can be the management wanting to take advantage of synergies that the market does not realize and thus only is based on the overestimation of the management. Also, the takeover wish can be based on the strive for prestige, power and the will to build an empire. Though these motives might exist in some events they are not part of the reasons to be considered as the most common or important.

When choosing a possible partner, the strategic fit plays an important role. “Strategic fit is broadly characterized as similarity between organizational strategies or complementary organizational strategies setting the stage for potential strategic synergy”.17 In order to achieve the maximum synergy effect, the value of the whole needs to be larger than the value of each part on its own. This is called a positive synergy effect. Mostly this can happen through eliminating inefficiencies in management as well consolidating efforts. Furthermore, a negative synergy

effect can be noted, if the merger has a negative effect on costs and income. It can be influenced by costs of integration, legal costs, relocation costs and software’s. To calculate the net synergy the following formula is used:  

\[ \text{Net synergies} = \text{positive synergies} - \text{negative synergies} \]

When discussing positive synergies, there are two main categories: Operating Synergies and Financial Synergies. \(^{19}\) Financial Synergies refers mainly to the possibility of reducing the cost of capital when combining the organizations. This can refer to tax reasons or possibilities for financial engineering. Companies now have the possibilities to make new loans and possibly get lower interest rates or restructure their debt. Moreover, there are some M&A activities that are based on the undervaluation of the investigated company which makes it a good deal and gives the advantage of the future revenue bypassing the purchase value quickly.  

Operating Synergies derive from cost reductions and revenue enhancements. Revenue enhancement might come from new opportunities that arise from the union of the two companies. This could happen if each partner in the merger cross-markets the other one’s products or if an OEM only selects the company, if they can offer the full range of products it requires. Cost reductions can be noted in consolidated purchasing being able to negotiate better prices and delivery term with the suppliers. Undergoing a remodeling of the organizational structure is crucial in order to take advantage of the full potential of the cost reducing synergy effects. If planned well in the pre-merger phase and executed efficiently in the post-merger integration, results can be seen in most areas of the company. Some examples are: Research and Development, Marketing, Sales, Human Resources and Logistics.  

### 4.2 Phases of M&A and Post-merger Integration

In a merger and acquisition we can typically see 4 phases: M&A decision, M&A take-over, M&A integration and M&A evaluation. M&A integration can be understood as “the art of combining two or more companies- not just on paper, but in reality- after they have come under

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common ownership.” But is it important to consider though M&A integration is one stage that is clearly defined in the process of a merger, it is only part of the post-merger integration (PMI). This process can be divided into the following stages: Preparation phase, planning phase, implementation phase and evaluation phase. The PMI should optimally start in advance. Figure 1 shows how these phases overlap with the main M&A transaction. Ideally the PMI process starts during the M&A decision phase with the due diligence. “Merger integration due diligence has the goal to review the merger integration project and plans” to “maximize the likelihood of integration success”.

**Figure 1: Phases: M&A and PMI**

As described above, the PMI should ideally start already in the decision phase. Nevertheless, this is normally not the case. Most PMI processes are initiated only just after the take-over. Reviewing literature on the topic shows that there are several publications that support this idea. Often the M&A process is divided in 3 phases: Pre-merger, Merger and Post-merger. Although this interpretation is valid and understandable, the model explained above takes the approach of PMI a step further and requires action in the process before the merger has taken place. This is a more practical approach and will be applied in this paper.

Post-merger integration can be seen as the premise of the acquisitions potential versus the acquisitions performance. In integration it is of highest importance to achieve a balance between the two parties. Often two large parties that need to fit together are involved. The integration

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process on a cultural and organizational level is very complicated and requires a sophisticated process. Sociocultural integration can “lead to sharp interorganizational conflict as different organizational cultures, managerial viewpoints, HR management systems, and other aspects of organizational life come into contact.” Due to this period being so critical the factors that lead to success in the integration will be analyzed in the following chapter.

5 Success Factors M&A’s: Theoretical Background

5.1 General drivers of success in M&A Transactions

Several factors have shown to affect the successfulness of M&A’s. Some are easier to control than others when planned carefully. External forces may complicate implementation plans. If not all of the drivers are taken into account, the possibility for failure is high. Failure can be defined in several ways. One extreme way to define failure is: part of the business needs to be resold again after the merger went through. If this definition is to be applied, failure rate is not that high – under 20 percent.  

But if failure is understood as not reaching the financial goals set pre-merger, then the number reaches almost 70-90 percent.

To be able to understand what is necessary to avoid these mistakes, the success factors will be highlighted. Pre-merger success factors and post acquisition factors are often separated. However, it makes more sense to address them as one package, as the process and evaluation needs to be seen as one process where each action has to be thought through and well planned. In the pre-merger phase the most important factors are paying the right price, find the right match in size, choose a strategic partner, take the time to get to know the other partner, communicating the right amount and content of information and agree on a future compensation policy.

Taking the time to get to know the counterparts reduces information asymmetry and gives time to evaluate a cultural and organizational fit. These factors will be further analyzed in the next chapters. In the period of pre-merger, the possible future partner needs to be a fit that is aligned with the long term business strategy as well as a good match in size. A very small company might not feel valued in the PMI or a very big company might be difficult to integrate to an extent that results in maximum synergies later on. In order to maximize the synergies as well as on the impression on the successfulness concerning financial figures, the price that is paid will play a big role. In this period it is important that the decision circle is kept as small as possible, but the key people for decision are involved.

All of the mentioned thoughts influence the PMI success factors directly. In the PMI integrations success factors can be divided into five general categories.

1. Coherent Integration Strategy:

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The decision on what integration strategy will be chosen is very complex. It will largely depend on the objectives that were defined for the M&A project as well as on the relationship and positions the two partners had previously. There is a correlation between a merger’s performance and the level or degree of integration. Four categories of integration can be defined. In this model organizational autonomy and strategic interdependence play a strong role. The four levels are: Preservation, Symbiosis, Holding and Absorption (see illustration below).³¹

**Figure 2: Modes of integration**

![Modes of integration diagram](image)

**Holding** means that there will be marginal or no integration at all. In the **absorption** mode a high level of strategic interdependence is created and only a minimum of organizational autonomy is necessary. The buyer company will maintain the organizational autonomy in the **preservation** mode, and only minor strategic interdependencies are encouraged. The last mode, **symbiosis**, shows a high degree of strategic interdependencies and a high degree of organizational autonomy. It is the highest degree of integration.³²

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The higher the degree of integration, the higher the value added and synergy effects can be, if managed correctly. The important point is that one degree of integration needs to be chosen and the complete strategy needs to be coherently aligned.

2. **Strong Integration Team and Leadership:**
Commitment is a key factor for a successful integration and must be demonstrated throughout the leadership, structure and especially the integration team. It is important to have a dedicated, full time and discrete integration team. Moreover, it is recommended to separate the team from the core business. Balancing the team with members from both organizations will help to address cultural topics. Experienced senior executive should optimally be part of the team. The importance of a well organized integration team is on the one hand to support employees and leader in the post-merger phase, nevertheless on the other hand the task is also to diminish the customer’s awareness of the merger process and the frictions that may come with it.\(^3\) Additionally the leadership team is very important in identifying and enacting necessary change. Often integration is being directly connected with a high employee turnover on the executive level as well as with highly skilled employees. This is quite common as with restructuration some positions become obsolete as well as several people not being able to cope with the change and thus leaving the company. So, leaders play a strong role in managing and communicating goals as well as meeting the needs of most participants. It has been seen that leaders from a diverse background concerning culture, personal characteristics and social connections are key to successful PMI’s.\(^4\)

3. **Communication and Human Resource Management:**
Resource sharing and knowledge transfer are important to consider when maximizing value creation in the integration phase. Managers have to take initiative and have to be able to communicate the strategy line and objectives clearly to all employees involved in the process of the M&A. This can have a big impact on the motivation and possible knowledge transfer and ultimately to the level of achievement of expected synergy effects. Managing the human capital acquired as well as the one acquiring are both important. Training, new assignments or simply platforms to address the stress that comes with integration will be necessary. The result of integration often relies on communication. The message needs to be transferred in a way it can be positively understood by

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most employees focusing on how the two companies fit together. The understanding of the company’s development is important for customers, investors and employees alike. Changes in responsibilities need to be communicated as quickly as possible. Furthermore, an open and direct communication of managers from both companies from an early stage will influence the mutual learning and the creating of informal coordination and ultimately the outcome of the merger.  

4. **Speed in Implementation:**

Consultant companies mostly agree that speed is a crucial point of consideration after the merger has been completed. There is no minimum limit, but a maximum of ‘100 days’ or 6 months is mentioned. Core processes, IT systems, responsibilities and strategy are the first topics to be addressed. The first few months after a merger, can decide if all the expected benefits and synergies are achieved and the M&A can be said to be successful or not.

5. **Aligned Measurements:**

To be successful in the post-merger integration, the vision and strategy need to be perfectly aligned with the measures that are to be taken. The goal definition must be a result of a cooperation of management from both sides of the organization. Consistency in decision making and actions will give stability in this difficult time. Tracing systems, milestones and project management to achieve the maximum level of synergy is important. The responsibility should be shared. It is recommended to have one integration manager in charge to coordinate the measure from function areas, business units and other project leaders. Financial indicators from cost saving and synergy effects will give a better feeling of the success of the integration process. Transparency will give stability and reassurance for employees and investors.

Additionally, to these five general key drivers to success, it agreed on that cultural aspects as well as organizational complex play a strong role in determining the effectiveness of integration. This is why the next two chapters will address these points in detail.

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5.2 Formal Factor: Organizational structures

Historically a high strategic fit with strong potential for synergies was seen as one of the most important factors for a successful M&A. But in the recent years it has been the goal to try to understand why there is still a percentage of 60%-90% of mergers that fail. Following this line of thought has led researcher to look more closely into the human factors. These factors are often not as easy to assess and are quite complex ideas. This section will concentrate especially on the corporate cultural and the organizational complex as possibly one of the most important factors to be analyzed in order to define the success of future mergers.

The first step when analyzing the organization during the PMI is reviewing the requirements. The requirements depend on the integration strategy that has been chosen as well as several other internal and external factors. In order to develop a complete organizational concept there are two pillars that need to be considered: Organizational structure and the process-orientated organization. The interaction is shown in the following figure:

![Figure 3: Organizational Structure Spectrum](image)

Organizational structure is usually described as a formalized representation of role relationships. In order for a company to reach its primary goal of making profit, individuals and groups of people need to take certain roles. The relation between these roles is important for the whole

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organization to work effectively. These relations are expressed in a formal way in organizational structures. These structures are heavily affected when companies merge.\textsuperscript{39} The structure can show the level of specialization and standardization of tasks. Centralized or decentralized organizations, their sizes as well as the level of formal vs. informal interactions are important aspects in the organizational structure. A scalar process, which refers to the division of work or grading of tasks depending on responsibilities and authorities, will always exist when two or more people work together in a supervisor to subordinate relationship. In conclusion, the work must be divided into different kind of duties.\textsuperscript{40} Models provide a reference to the structural design of organizations. The following one shows two completely different organizational structures: Organic structures and the mechanistic structure model.

\textbf{Figure 4: Organizational Structure Spectrum}

![Organizational Structure Spectrum](source.png)

The mechanistic structure consists of a minimal horizontal width and maximal vertical height. This structure represents high formalization, limited information for individuals and groups, centralization and expensive departmentalization. The organic structure model will typically have minimum vertical levels and a maximum horizontal span. It represents a flat, cross functional team with low formalization that relies on participative decision making.\textsuperscript{41}

Modifying the organizational structure in horizontal and vertical span can affect the business performance. That is why it is of highest urgency to consider the pre and post-merger organizations the company will have in the process of integration.

The process-orientated organization refers to the optimization and consolidation of processes and systems on control, support and operative level. The objective is to merge and harmonize operational procedures of the affected companies in the new organizational structures that have been created. Routines and standardization are to make corporate complexity easily manageable. The building and realizing a new strategy needs to be the center of attention in order to design a new process-orientated organization. The design in this phase will result in processing tasks and project quicker and with higher quality results. If identical or similar processes are defined, the integration of them will allow potential synergy effects to be achieved. It is recommended to closely analyze the processes of both partners to be able to choose the most efficient one for both companies. Processes can be unified, merged or created. The level of integration of the processes depends largely on the organizational structures. An organic organization typically has a lower degree of structural integration than a mechanistic organization. Important factors in the implementation of new process-orientated organizations are transparency, consistency and the level of penetration throughout the organization.42

5.3 Informal Factor: Culture in mergers

5.3.1 Culture: Definition and Models

The word corporate culture has been defined in many different ways. This makes it seem like a very complex topic.43 The first time the world culture was linked systematically with business, corporation and their success was in the 1980’s.44 During this period, the international success of Japanese companies was analyzed and contributed to their specific corporate culture.45 Today there is no doubt about the importance of corporate culture for the development of a company.46 In an M&A, cultural integration is one of the biggest informal success factors to be named. If the culture is taken into consideration there are several positive effects to be expected, such as employee satisfaction, low turnover and absenteeism, higher productivity and revenue per employee.47

45 Cf. Schreyögg, G. (1993), p. 21. In comparing Japanese Companies to American or European Companies at the time, it was found that Japanese companies give the cultural dimension a higher importance than their competitors from abroad.: Cf. Müller, M. (2007), p. 76.
“Organizational culture tends to be unique to a particular organization, composed of an objective and subjective dimension, and concerned with tradition and the nature of shared believes and expectations about organizational life.” Furthermore it can be seen as “a set of attributes which are perceived by the individuals and which are deemed to have an impact on willingness of the individual to perform at his best.”

The complexity of the concepts is based on the multiple ways to understand culture as well as the point of view of the literature that is being analyzed. The literature distinguishes three approaches to describe interaction between a company and culture.

1. The **functionalistic** or also called the objectivist approach describes corporate culture as one of several important but controllable variable in a company that can be crucial in order to achieve the objectives. In the functionalistic approach the corporate culture is said to be defined by the behavior of individuals in the organization and by consequence it can be influenced and possibly modified by managers.

2. The **interpretive** approach, also called subjectivist, understands corporate culture as a root metaphor in the cultural context. It is assumed that the corporate culture is created by a collective construction of reality in the minds of the members of an organization. This means that the culture cannot be influenced by the management team. In the interpretive approach the corporate culture is seen as an only subjective, objectively not existent, mental system. Interpreting this approach, the company is inseparable of its corporate culture.

3. The third approach is called **integrative** and explains how a company both has and is its own culture at the same time. This means that a social learning process can happen and a modification of the culture will be possible. The limitation from including points of view from the subjectivist approach that explains that there are some parts of the culture that are difficult to influence and some actions hard to predict.

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52 A metaphor is a perspective for a visual consideration of e.g. companies. One well known metaphor for organizations is based on Tylers comparison to a machine. Cf. Breuer, J. & Frot, P. (2010), p. 94.
Weinand F. (2000), p. 95
In this thesis it will be taken as a basis to understand corporate culture that the culture does not only randomly develop itself, but neither is it solely depending on the leaders to develop it. The integrative approach seems best suited. The culture is created though a mixture of multilayered internal and external influences of which some are controllable and others are not. It is complicated to describe a corporate culture. It is an informal factor for success and there is no defined format. But there is an attempt to classify organizational culture following way:

1. **Power Cultures**: Depends on a single source of influence. Described as a spider web with the most powerful spider in the center.

2. **Role Culture**: Roles and responsibilities are given primarily over the individuals that fill them.

3. **Task Culture**: No single source of power. Matrix or project based structural design.

4. **Person Culture**: The firm exists to serve the interest of the individuals who form it.\(^{56}\)

### 5.3.2 Culture and M&A Transactions

The challenge in an M&A, to decide whether a new culture should be created or if one of the parts should be integrated into the partner culture is difficult to make. Organizations develop their own culture over the time. Influence factors in the process of developing corporate culture may be the degree of international exposure, leadership and national culture. This means that even companies from the same country will probably have different cultures. When merging these, in the beginning many differences will come up. Employees will perceive the other company as external influences and as part of the change there might be rejection at first. The acquiring company often tries to impose its culture on the acquired company. The corporate culture has a social structure that is highly complicated to understand and to change. This often leads to resistance because of the feeling to have “lost” on the acquired side. If the human relations, feeling and fears of this process is not managed correctly, it will influence on the value add of the merger. This is a factor that has become more and more accepted as a failure factor.

An analysis of compatibility of the corporate culture of the two companies to be merged, will help to give an estimate and plan on how to structure leadership, strategy, vision and communication in the new organization. One challenge in planning the new culture ahead is that Human resources are often involved when the deal is already closed. Furthermore, the merging

partner’s will often not openly disclose the company’s weaknesses. Culture develops over time and if two different culture will be competitive or not is hard to predict. The management of the integration process as well as a strong leadership might influence the outcome of the integration strongly and even make a merger that seems critical from a cultural standpoint a full success. In order to modify the corporate culture of either or both of the partners persuasion and political issues will be a challenge.57

5.3.3 Organizational cultural factors: Acculturation process.

There are two levels of culture: organizational and national culture. Mostly their relation to the success of M&A’s has been analyzed separately. This paper will address both sides in order to be able to determine the success of the case in a complete way considering every aspect.

One approach to explain how to integrate organizational culture after a M&A transaction, is the acculturation model. Four different modes of acculturation have been identified. They indicate the degree of interaction and the way conflicts will be resolved after a M&A.

The first mode is called assimilation and expressed how one organization willingly adopts the identity, culture and practices of the other party to become part it. This is the most common modes to merge companies. It is important to point out that this is a voluntary process and this tends to make it easy to implement.

The second mode integration and is most likely the mode opted for, if both members of the merger want to maintain their corporate culture. They can remain relatively autonomous, but there is a willingness to adapt the practices and culture to a certain extent. Although there might be some modification to minor parts of the culture, integration concentrates the efforts on structural and organizational integration of the companies. This mode might generate some conflict and is less easily implemented than assimilation. Negotiation and open communication is the key to success for this mode.

Separation is the third mode that will be analyzed. This mode is represented, if one or both groups actively decide to maintain all aspects of their culture. Through the wish to remain as separate as possible from the parent organization, the potential of conflict is high and the mode difficult to implement.58

Lastly, the mode of **deculturation** will be presented. In deculturation the acquired company gives up its own identity and culture as well as its organizational structure. Moreover, the company refuses the new culture as well. This is the most drastic mode as it is accompanied by a lot of conflict and the feeling of losing its identity in the case of the acquired company. This mode is typically not selected consciously by manager for the PMI.\textsuperscript{59}

**Figure 5: Cultural PMI from acquirer’s point of view**

![Cultural PMI diagram](image)


In the above illustration it is shown that when deciding for a mode of acculturation, factors like structure, leadership and culture play a role. It explains the acculturation process from the acquirer’s viewpoint. If an organization is structured in an organic way, the mode will lean towards either integration or separation. The factor for leadership is divided in either Type 1 or Type 2. Leadership tends to have a strong influence on the culture. Often founders create a certain culture and following leaders are selected to fit the culture established. Type 1 leaders are employee orientated, group orientated, permissive, supportive and participative. This explains that these leaders tend to lean towards integration or separation as modes for acculturation. Type 2 leaders prefer assimilation or deculturation, as they are normally goal orientated, autocratic, directive in decision-making and production orientated.\textsuperscript{60} From a cultural standpoint this illustration differentiates between multiculturalism and uniculturalism. This distinction refers mostly to whether it is a globalized company with different country cultures (multiculturalism) or if the company historically has been located only in one country (uniculturalism).\textsuperscript{61} It also refers to the degree the organization is willing to tolerate cultural differences. Furthermore, the choice of the mode of acculturation is based on the degree of relatedness. If the company is

highly diversified separation or deculturation are more probable than in a company that is highly related.

The modification of a corporate culture can either be done in small steps or within a radical modification which implies replacing a large about of the management team. This radical approach is also called Cultural Revolution. The result of this is often a feeling of inferiority of the acquired company which can affect the level of synergies that will be achieved. On the other hand it is much more dynamic and results of modifying the culture can be achieved a lot quicker.  

The following figure shows how depending on the culture of each organization, a mode of acculturation needs to be chosen. Depending on the congruence and compatibility a level of acculturative stress is developed. The success of a cultural integration of two companies depends on the level of acculturative stress and how the management and organization deals with it.

**Figure 6: Model of acculturation in acquisitions**

![Model of acculturation in acquisitions](source.png)

Source: Schoenberg R. (1999), p.298

Sociocultural integration factors are defining for the level of acculturate stress and though to the success of the implementation of the merger. The process of cultural due diligence in the pre phase is important in creating a shared identity and trust later on.

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5.3.4 National cultural factors

After presenting the organizational culture the national culture will be presented in order to consider all aspects that might influence integration on the cultural level.

"International acquisitions provide access to a potentially valuable repository of knowledge and capabilities embedded in the local environment of the merging organizations (Ghoshal, 1987). According to Morosini et al. (1998), acquisitions in culturally distant countries are more valuable because a greater cultural distance makes it more likely that the target firm will have capabilities that are significantly different from the acquirer’s own set; thus, ceteris paribus complementarities are more likely to exist."64

The PMI involves nationalism and national cultural stereotypes that tend to lead to conflict.65

In general, a larger cultural distance between two companies that are to merge, results in more incompatible practices and it complicates the transfer. These types of acquisitions are more costly than a merger between two companies of a close national culture. The acculturation model and thus the level of integration that is to be achieved on a cultural level can moderate the cultural shock of two distant national cultures.66 In order to evaluate the compatibility of national cultures Hofstede (1980, 1983 and 2001) has developed a model with six measures:67

1. Power distance Index (pdi) – Describes the extent to which member of an organization, especially the less powerful, expect an even distribution of power. In low power distance countries decision making and power are decentralized. Subordinates are only limitedly dependent on their bosses. On the other side, hierarchy is the central element of power in high power distance countries. Power and decision making are centralized.

2. Individualism versus Collectivism (idv) – Collectivism is the degree to which people are orientated to act as a group opposed to act as individuals. In individualist countries members are confident and autonomous and they value individual success and achievements. On the contrast, in collectivist countries, people rely on information provided by others in order to formulate their opinion as they are bound to a group such as a village or extended family.

3. Masculinity versus Femininity (mas) - The value of success and aggressiveness describes the level of masculinity. An emphasis on high earnings, challenging work and the advancement through opportunities is representative to a high masculinity country. In high femininity countries society’s best interest, inclusiveness, relationship, cooperation and concern for others are highly valued.

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4. Uncertainty Avoidance Index (uai) – This index measures the degree of confidence about the future people feel. If a culture scores high the population has a strong need for rules. In contrast, if a country scores low formal rules and they are tried to be avoided.

5. Long Term Orientation versus Short Term Normative Orientation (ltowvs) - Perseverance and thrift are virtues orientated towards the future and sign of a culture that is long term orientated. Fulfilling social obligations, respect for tradition, preservation of ‘face’ stand for a short term normative orientation in a culture related to the past and present.

6. Indulgence versus Restraint (ivr) – A society of restraint expects the gratification of needs to be suppressed and regulates it by implementing strict norms. It’s opposite pole allows for gratification of natural human drives that are related to fun quite freely.

There has been some criticism to Hofstede’s model throughout the years as it does present some weak points in the argument. Firstly, the model does not distinguish between ethnical subgroups or the result of international mobility affecting the national culture on a local level. Also, the result for each country relies on data collected between 1967 and 1973. This means that any modification due to global influences, internal development or effects of technology is not considered. Furthermore, corporate, organizational or industry specific cultures within one nation might exist and they can differ from each other. This indicates that the national culture is only a rough guideline in assessing the cultural compatibility of two firms that are in the process of an acquisition. Though there are some weak points to the analysis it is still a very easy and representative study and should for sure be part of a multileveled investigation of a company’s culture in international M&A’s. In chapter 6 the model will be presented using a case study as a concrete example.

It has shown that the cultural clash when combining two companies from distant nations can be reduced by organizing intercultural workshops and by frequent visits from management representatives from the acquiring unit to the acquired unit. Communication and human resource management are extremely important in order to successfully integrate two different national cultures in the long term.

6 Empirical Study

6.1 Research methodology

There are several methods for scientific research. All of them hold advantages and disadvantages. It is important to define which methods are useful for the research question that is to be analyzed. For the master’s thesis the case study approach was adopted. The case study approach is of use especially if the investigator has little control over events and if understanding a complex phenomenon in a real life context is the objective. Following the case study methods involves a thorough literature review. The objective of the thesis is not to test an existing theory, but to understand the post-merger integration process and the critical factors. The case study method can be a useful methodology to investigate contemporary mergers and explain the causal links in real life situations. These situations might be too complex for surveys or experiments.

When focusing on organizational culture, it seems like a very complex topic which is hard to describe objectively. It influences decisions in ways that cannot be explained. Anyhow, there is the method of Corporate Culture Audit to address this topic. Three steps are included:

1. Collection of Data: Interview, Questionnaires and Observation of cultural differences.
3. Integrating cultures: Identify action plan and strategy to minimize the clash of cultures resulting from a merger.

The data collection was multi sourced. This assisted to reassure the findings of some sources. Interviews were the main source of data. Interviewees were top management, middle management, employees as well as integration managers. They were asked questions about the organization, process of integrations and their success. Other employees were interviewed about their view on corporate culture and current mergers and acquisitions. When studying the experience of people in the moment of organizational and cultural change process in relation to M&A interviews gave a close insight into the situation. People that originally come from different organizations had a different viewpoint and gave alternative perspectives on the same case. In this thesis there are no direct quotes from interviewees. The reformulations are still marked with footnotes to reference to the interviewee who gave the main idea. The names of the people

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interviewed will not be mentioned for confidentiality. The only available information is their position.

Although interviews were the main source, observation and documentation supplemented the data collection and filled gaps that surged. Pilot interviews were performed in advance to help define which specific questions help to receive the information needed. Also, an early insight on the feelings and opinions on the topic to be investigated helped to orientate the master thesis. The interviews were held with people from both Company X and Company V which is the main case that was studied.

I believe that selecting sample of people to be interviewed from most hierarchical levels gave a more realistic overview of the progress in the integration processes and the factors that were managed successfully or not. To make sure to have a sufficient sample number to draw founded conclusions, I asked the people interviewed to refer me to other possible interviewees. Interviews were held in English, Spanish and German covering the main geographical areas of the two companies of the core analysis.

Data collection from the internal company network and from human resources were other options for sources. Strategy statements, script for speeches and press releases were of use. These sources gave insight into the organizations cultures, strategies and reaction in the integration process.

Defining a clear case orientated framework to support the goal orientated search for data as well as to structure the thesis within the given time limits, made it necessary to focus only on the core topic.

This might have the disadvantage that important aspects about mergers and integration were not analyzed, especially since the research question was defined before the in debt case study approach.

The case that will be reviewed in the following sections of the thesis shows several interesting aspects for the investigation of the hypothesis about the informal and formal factors critical for successful post-merger integration.
6.1 Results of Research

6.1.1 The Integration of Company X and Company V

Company X is a German based company that has been expanding internationally until becoming the global company it is today. Company X is structured as a corporation that is registered in the German stock exchange (DAX) and led by its board of executives. Further details of the companies involved in the merger and acquisition transactions as well as the transaction itself will be treated as anonymous in this thesis.

Pressure on companies on global markets had been increasing. It is important for a company to have a considerable size in order to be able to make demands along the supply chain and leverage on possible economies of scale. Company X had been on the path of expansion for several years. A special focus for the evaluation of a future partner was a geographical match to expand its market reach and customer base. Possibilities to realize synergies and to gain valuable knowledge of an established company were center of evaluation. After a close scan of options that were aligned with the corporate strategy the decision was made to acquire company V. 

The global company X acquired its American competitor V and though gained several thousand new employees and new international locations as part of the deal. The deal was made official in February 2014, but due to antimonopoly investigations it was signed in January 2015. Since that date, the company finds itself in the post-merger phase of long term integration and in specific cultural integration. From an organizational view the total incorporation of company V is planned since it lost its legal and financial independence in the acquisition process.

The objectives of the merger were to increase product differentiation as well as geographical reach. The merger can be categorized as horizontal. Company V came from a period of being owned by an investment firm which heavily affected the organization culture and the employees mindset, since it was a time of little growth and advancement. The first reaction when the merger was announced was generally positive. It seemed like a good option since company X came from the same industry and there would be interest in continuing the business. The transaction was based on a mutual agreement to acquire company V, which makes it a friendly takeover. 

In relation to the following integration it can be said that a friendly takeover can be seen as a positive, because the acquired company is expected to show less resistance for corporate cultural changes.

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72 Interview 3
73 Interview 2
74 Interview 1
The integration of the companies is structured as a project. Company X assigned one responsible manager that was fully responsible for the integration. He was set aside for the project for 1.5 years on a full-time basis. This person reported directly to the board of executives. In addition, there were two other full-time integration managers on a segment level reporting to the main responsible. The main responsibility of the integration team was defined to be the definition and follow-up of key projects for integration as well as to support to reach the expected synergies. This meant that the integration team had to work in close contact with operations management in business units as segments in order to assure the necessary resources as well as participation of employees in the projects. Additionally, the integration team can be said to have been the point of contact for problems and conflicts as well as internal and external communication.75

The Synergy Task Force was created as a separate unit with the only objective to define and realize possibilities of synergies. This unit was also organized as a project in which employees of both companies cooperated. Local synergy responsible partners at plant level meant that this group had strong competencies for implementations of the defined actions. The Synergy Task Force underlines the extremely high importance of synergy factors in M&A transactions.76

The time frame set for completion of integration was 2 years. However, by March 2016, it had been announced that many projects had been completed and that good results had led to the decision to disintegrate the Synergy Task Force as well as the integration team. The starting objective had been to complete the most important steps of integration within the first 100 days after the signing of the deal.77

6.1.2 Comparison: Organizational Concept of Company X and V

To be able to analyze what are favorable factors for the PMI integration and which not, this chapter will describe the organizational concept of the two companies that are under investigation.

The organizational structure is where one of the biggest differences of company X and V were detected. Company X has developed an organic structure over the years, while company V showed a typical mechanistic structure at the time of the takeover.

75 Interview 5
76 Interview 8
77 Interview 4
While assessing the two different types, company X did note advantages of the mechanistic structure V presented. The top down approach facilitated implementations and the standardization offered the possibility of a joint learning effect. So, when the two companies merged, company X abandoned their loosely tied decentralized complex in order to modify the corporation adjusting to company V’s centralized way of working. Central departments gained power while the autonomy of manufacturing locations was reduced. This presented a greater challenge than expected due to past structures and cultures. Coming from the organizational structure the hierarchies were stricter in former V and informal networks greater developed within X. This fact led to many interpersonal conflicts due to the different understanding of everyday business life.78

The organizational chart of the top levels was communicated quickly. Even though different titles and responsibilities remained unclear and positions seemed like they were doubled at times. It was difficult to integrate the two organizations since so far there had been two headquarters, one in Germany and one in the USA. The relationship of the two remained unclear for several months. Then it was communicated that the American headquarters was going to become the new America headquarters, but ultimately reporting to the global headquarters in Germany.79

Integration of processes and systems was another focus point during the PMI of company X and V. As a German company, X had strong financial control systems that were to be implemented in the new organization within a month. IT systems could be implemented even faster. There was no option of analyzing which system was better in these cases as company X is a much bigger corporation and the integration of these established system was a requirement.80

On the sales side though, it was not as clear. Company X had started their efforts on creating a CRM (Customer Relationship Management) platform only a few years previously. Company V had historically had its focus on sales and marketing activities and had thus created an impressive software to manage markets, customers and sales. Within a unification project it took about 6 months to evaluate with CRM tool would be the preference. Finally, it was decided that the tool from company V would be implemented.81 On the quality side it was similar. Company V had implemented a quality system management tool in all its plants. Company X on the other hand still managed the systems autonomously and manually at each location. One and a half

78 Interview 3
79 Interview 4
80 Interview 2
81 Interview 3
years after the merger there was still no decision made on which tool to use. Though it was clear that it would have to be a new one as neither of the solution was completely adequate.\textsuperscript{82} In summary, it can be said that great importance was laid on the integration of organizational concepts. It was the main focus of the efforts of the top management as well as the integration team.

### 6.1.3 Comparison: Corporate Cultures of Company X and V

As of the cultural integration of the two companies, the top management discussed the acculturation modes in order to decide for the most adequate. It was important to consider the strategic direction in order to make the right decision.\textsuperscript{83} The culture of each of the companies had developed independently over the years, yet heavily influenced by each organizational structure. In company X a task culture had been the predominant. In contrast company V showed to be based on a mix of power and role culture.\textsuperscript{84} Due to company X’s (the acquirer) organic structure and Type 1 leadership, this organization opted for an integration mode for the acculturation process. It was a friendly takeover and negotiation and communication where thus good. This created the basis to be able to integrate. The focus was put mainly on structural and organizational topics of integration. Creating a common corporate culture for company X and V was not center of the focus during the integration. Company X even supports to partially maintain Company V’s culture with only slight adaptations. This means that there is less resistance by the employees. Company X also values the partner corporate culture as piece of the company’s success. This was especially seen in the complementary American market and thus would not want to start a Cultural Revolution that might affect employees, customers and markets. The integration mode of acculturation can create more conflict than for example assimilation, but it is seen as necessary in order to learn from the M&A partner as well as to be able to realize the planned synergy effects. This is seen as the step for the first few years. Company X has seen that in past mergers the mode of acculturation can modify throughout the process both in the short term and long term. The long term goal is to wait until the assimilation mode naturally initiates. The ultimate objective of this merger is to be one company in culture and organization, but without creating a cultural clash in the first

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\textsuperscript{82} Interview 1  
\textsuperscript{83} Interview 6  
\textsuperscript{84} Observation
few years. It is common for assimilation to start after a few years when the organizational structures are integrated fully and the employees have a high level of interaction. It is not seen as necessary to force or guide this process.\textsuperscript{85}

In order to start the analysis of the compatibility of the two cultures Hofstede’s model (1980, 1983 and 2001) presented in section 5.3.5 will be applied. Company X originates from Germany while Company V is an American based company. The followings graph shows the results of Hofstede’s analysis in red versus the evaluation of company V that results from the interviews performed for the paper:

**Figure 7: Index of national culture based on Hofstede versus Company V**

![Graph showing the comparison of national culture indices between Hofstede and Company V.](image)

Source: own illustration based on: Hofstede, G (2001); Hofstede, G. & Minkov, M. (2010) and results from interviews.

It can be observed that there are several big gaps where the organizational culture does not necessarily align with the average national culture. Company V has an above average power distance for an American firm. The employees feel power typically is originated through hierarchy. Masculinity also is quite a little higher in company V. The industry is required for a certain type of corporate culture. It needs to be stable and long term orientated. Indulgence is not as accepted as it may be in other Industries in America. It is important that uncertainty is avoided, and the employees have embodies this into the corporate culture. It can also be seen that company V is less individualistic due to the industry they operate in than the national average.

\textsuperscript{85} Interview 4
In contrast, the following figure shows company X in comparison to the national average from Germany:

Figure 8: Index of national culture based on Hofstede versus Company X

Source: own illustration based on: Hofstede, G (2001); Hofstede, G. & Minkov, M. (2010) and results from interviews.

Company’s X corporate culture aligns quite strongly with the average national German culture. The only slight discrepancy can be seen in Germany having a slightly higher masculinity than the corporate culture.

In the next Figure the corporate cultures that were shown in comparison to the national cultures above, are put right beside each other.

Figure 9: Index of national culture Company V versus Company X

Source: own illustration based results from interviews.
The result is surprising as it shows that company X and V are not very far apart in their corporate culture. Company C is only a little more long term orientated and company V has a stronger masculinity index. The strongest diverge can be seen in the power distance. According to Hofstede the power distance in both Germany and the United States are low. This should mean that company X and V both have a similar level decentralization. As already shown when evaluating the organizational structure of the two companies, company V shows a power distance index is 60 and company X’s is at 35. Company V’s power distance is higher partly due to the organizational mechanistic structure. Ranks and hierarchies are very respected as has been analyzed previously.

The conclusion that can be drawn from the graphs and its analysis is that the two companies are very strongly aligned, though their national culture is not. Parting from the national culture a high cultural distance would have been expected. This is not the case. Except from in the power distance category all the other measurements are strongly aligned. This supports in drawing the conclusion that in this case the national culture plays a less significant role than the influences from the industry both companies operate in. Both companies have operated in the same industry for more than 100 years and show a similar culture using Hofstede’s analysis. So, it can be said that the two companies are compatible from a cultural standpoint.

6.1.4 Cultural Due Diligence: Analysis of compatibility of corporate cultures

Though, the cultural fit of two merging companies is seen as one very important success factor and about 50% of CEO’s would agree, it is very difficult to define the cultures in advance. An additional problem is that most CEO’s think they understand the culture of the company they want to buy based on how well they like the negotiating counterparts. It often happens that they overestimate their influence on the corporate culture. So it is recommended to find a more objective way of analyzing the corporate culture. This was not done in the case that is being analyzed exactly because of the reasons mentioned above. This section of the paper will present a method in order to come to objective conclusions about the corporate culture. It is recommended that company X should use a method for future M&A’s. Data will help to see cultural gaps and prepare an action plan to cope with problems even before they arise.

The tool that was analyzed splits culture into components that are measurable and helps to give concrete propositions on how to address possible critical points in order to minimize the risk of

the integration. The method is called organizational health index (OHI). It is a survey to all levers of leadership and employees of an organization. This is important in order to take into account different viewpoints and give a holistic result. It is especially important to mention that it gives a comparison between the two companies that are in question for a merger. The survey aims to give information on topics that can be categorized as seen in the following illustration.

**Figure 10: Categories of analysis concerning organizational health index**

![Organizational Health Index Diagram](image)

The main categories that are investigated are: leadership, Motivation, Innovation, Coordination and Control, Direction, Accountability, External Orientation, Capabilities and Environment and values.

The disadvantage of using a method such as the one describes is that significant resources, both financial and time are needed. As the importance is sometimes still underestimated and more important the CEO’s believe that they only have a clear picture of the corporate culture it seems unnecessary to make these investments. As an M&A has to be decided quickly before information can be leaked to the public it is a step that is mostly skipped. This kind of analysis, if taken serious, could prevent a merger activity that has few changes of giving the expected financial results, if executed in an early stage. Furthermore, if the decision has already been made to go through with the deal it gives a head start in making a plan to attack the issues. It is recommended to invest in an analysis of this kind.

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6.1.5 The process of cultural integration of Company X and V

The financial factors, product compatibility and geographical orientation of the two companies were analyzed on a very high level before the final decision for the acquisition was made. This is a very typical behavior since it is of highest importance to maintain secrecy so that the public and employees are not informed until it is certain that the takeover will take place. Otherwise fear and rumors could affect the success of the following integration.88

In the analysis of the compatibility of company X and V cultural factors played a minor roll. This is a usual pattern for most of the acquisitions company X has been through. Human Resources or the integration team were not involved until the deal was officially closed in January 2015. This does not necessarily jeopardize the success of the integration in general, but it diminishes a possible advantage of being able to predict a more realistically number of synergies or total sales or profit. The financial numbers that are forecasted are the deciding factor, whether to go ahead with the integration or not. But, so called soft factors could play a role in adjusting the numbers especially, if an analysis of organizational and cultural compatibility shows low results.

Immediately after the go live of the M&S in January 2014 the synergy task force along with the integration team was announced by the board of executives. The financial forecast was handed to the teams and they were made responsible of making a plan on how to achieve the numbers. They were given little guidance on how to do this. There was no concrete plan in place at that time which gave the teams liberty on defining the actions. Neither had the strategy been planned. It was clear that there goal was to keep things as easy as possible for the new employees. This means that V’s old headquarters was still kept and their central functions still existed.

The integration strategy on the long run was aimed to be an absorption (chapter 5.1). This idea was clear from the beginning as it made the most sense in order to achieve the maximum level of synergy effects. Anyhow, there was not an agreed plan on how to achieve the goal. As mentioned the only thing defined was the amount of financial effects of synergies being aimed for as well as the timeline of one year.89

When “Day One” arrived in January 2015 one representative of the Top Management was present at each location of company V. A welcome video had been prepared as well as a speech. This was very well received by the employees of company V, that had been anxious about what would happen after the takeover. IT systems from company X had been implemented at all V

88 Interview 3
89 Interview 4
locations immediately and the preparation had already been made to start financial integration with common reports and software’s in the following weeks. The employees seemed excited about the news and surprised by the quick reaction. Marketing material and technical catalogues were rebranded in an impressive speed.\textsuperscript{90} Within the first few weeks, intercultural seminars were organized for a selected group of top managers of both companies focusing on German-American cultural differences. The objective of this was to raise awareness of the topic which was seen as one of the most important factors for the success of cultural integration. The training was not executed for all managers or the rest of employees, so it remained an isolated action.\textsuperscript{91}

Company X has four basic values which are mentioned as the core of its corporate culture. Human Resources strived to transmit these values to all new employees within few weeks of the merge. Transmitting the values was seen as a key initiative to bring the cultures closer together. This was mentioned to be the first step of creating a joint corporate culture.\textsuperscript{92}

Within a short period of time from after “Day One” a strategy workshop was held with all senior executives from the old and the new part of the organization. A main goal of the event was to align the new strategy of the company with the core values of what has been company X. Creating awareness in the new senior executives and make all executives understand their importance in the integration as to being a role model was part of the workshops.\textsuperscript{93}

The company in this case is aiming for a holistic intercultural communication concept. Employees needed to receive necessary, relevant information and an acceptance and understanding of the new corporate reality had to be created. Especially the last thought is important for the new employees to be able to identify themselves with the new company as well as to simplify their daily work knowing how the processes in the company function. In the past corporate culture had not been explicitly addressed in the corporate communication. The media used to perform the communication were Newsletters both printed and on email, detailed presentations and informative events at some locations. Moreover, an online Portal that is accessible to all employees in several languages was created. Information about the integration, locations, markets and projects are described there.\textsuperscript{94}

To review the acceptance of the corporate communications program, an anonymous feedback was requested. The feedback was meant to be used for understanding, if the communication

\textsuperscript{90} Interview 3  
\textsuperscript{91} Interview 5  
\textsuperscript{92} Interview 5  
\textsuperscript{93} Interview 8  
\textsuperscript{94} Interview 5
reached all levels of employees, if the content is considered relevant and if the frequency is sufficient.95

6.1.6 Assessment of factors for success or failure of the Integration of Company X and V

This chapter means to analyze the success of the merger between company X and V. First a short summary of the development will be given to later discuss the evidence based on a theoretical model of success factors.

In the first few weeks after the merger, the integration seemed as if it would run quickly and smoothly and the companies had found their perfect match. But as weeks and months passed by the daily business barely changed, senior executives from V left the company, frictions on lower hierarchy levels arouse, sales people from now the same company competed instead of working together and efficiency of the newly acquired production facilities was low. By the end of 2015 the closure of one of the former V plants in Canada was announced. Until this point the message had been that the strategy would be mutual growth and that no people would be let go. So, this message came as a shock to employees that were already buried in work load since they often kept on using “old” and “new” systems and reports.96 The financial goals of the merger have not been met so far. A closer analysis of the data will have to show, if the merger can be proclaimed a fail already or no decision can be made to this point.

In the theoretical framework in the first part of the thesis, highlights some of the most critical factors for a successful integration. Based on these findings, the following table applies them on the case that is being analyzed. The degree of success concerning each of the most important factors is being evaluated:

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95 Interview 5
96 Interview 2

Figure 11: Evaluation of success in the merger between company X and V
The fist factor for success, which starts in the pre-merger phase but has strong relations to the future success of the merger, is whether the right price was paid. Due to the confidentiality of the thesis no exact figures can me named. Although, no financial data can be named the synergies that were planned were not met. A sales forecast has been established for the year 2015. This sales forecast summed up the sales of each individual company during the years 2014. Year end results of 2015 showed that the sales were about 20% off target.\(^7\) This can of course have several reasons. A downturn in the industry the companies operate in does influence negatively on the performance. Anyhow, part of the lack of performance can also be contributed to paying a very high value for company V. As company V was not listed at the stock exchange, it was more difficult to assess its total value. Also, the calculation base for the justification of the acquisition made by company X could be questioned. It might have happened that the data utilized to estimate future sales, profit and synergies was leaning towards a best case scenario. In the end one thing that can be said, is that the planned synergies have not been seen fully due to several internal and external reasons. This gives the impression that the price that was paid was too high.

Secondly, it should be assessed whether the merger took place between two companies that were competitive in size or not. Company X is a corporation that has several sub divisions, business units and segments. So, the size of company V at the time of the merger was about

\(^7\) Interview 2
10% of the size of company X. Although that might be the case when comparing to the whole corporation, the effect in the business unit that is being analyzes is very different. The business unit being analyzed had about the same size as company V, so it could be said that it was a merger an equally sized companies. This can create a risk of company V not willingly adapting to company X, as they had been independent so far. But on the other hand, it is being assessed as positive that the corporation was so much bigger and more powerful, so that company X had to adapt in the end. This is why this factor is being evaluated with medium degree of success. The analysis of company X as of being a strategic fit for company V is evaluated as highly successful. The companies have a similar product portfolio that is being complemented by some specialty products. Furthermore, the two companies acted in geographically different areas which give the new organization a global reach and access to all markets.\(^98\) Fourthly, sufficient time to get to know the partner is mentioned to be important. The companies have operated in the same product field for years, so there was a certain degree of knowledge on the other company. On the contrary, the deal was being kept in a very small circle of decision makers until it was decided.\(^99\) Also the decision had to be made quickly. Concluding the degree of success has been evaluated as medium.

The most important aspect of taking the time to get to know the partner is to evaluate the cultural and organizational fit that has been reviewed in previous chapters of the paper. Both items have been given a medium level of fit.

In the PMI phase a coherent strategy is critical. For the merger to work, the strategy was discussed from the beginning. A high level of interdependency was necessary. Furthermore, the level of autonomy of the two organizations was planned to be minimal. This is why absorption was the strategy originally chosen. Despite, this being the official strategy the development and the actions taken were showing signs of developing a symbiosis with a high level of interdependency, but also a high level of autonomy. This was done to not upset and shock the employees of the acquired organization with drastic changes. Changes in systems were not implemented quickly, structures were only passed on slowly and reports not unified. Parallel systems were kept alive and business kept on as usual in each organization. The existence of parallel systems made the transition complicated and increased the workload especially for employees of company V.\(^100\) It is typical in mergers to have a period of less change in the beginning. This period is called honeymoon period. But this period should not last for longer than a few weeks.

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\(^{98}\) Interview 7
\(^{99}\) Interview 3
\(^{100}\) Interview 4
Especially not when the autonomy of the organization is to be reduced and the strategy for integration needs to be absorption. Due to the described development during the first year after the merger the evaluation of the degree of success is low.

Moreover, it is important to have a strong integration team and leadership. The leadership during the integration period has been evaluated as very strong. Executives from both organizations showed commitment and motivation to connect the two companies. They are skilled and experienced and have shown that they know how to handle employee’s fear and possible resistance.

The integration team on the other side has been evaluated as medium strong. Their motivation was very high, but the team was not formed until immediately before the merger agreement was signed. This gave a disadvantage of not being involved in the analysis or the definition of the goals to be achieved. The team had no experience in integration and briefing on the synergies and actions to be planned was very briefly done by the board of executives. This led to valuable time being lost in the beginning by trying to orient and analyze the players as well as planning the tasks. On the other hand the integration team had strong top management support as well as a wide internal network of contacts due to their previous positions. Additionally, communication and soft skills were identified to be important factors when selecting candidates to fill the position. This gives a good basis for the communication during the integration to be successful, as this was part of the responsibilities of the integration team. During the first few days after the merger all locations that had been acquired had been visited and a Q&A (Question and Answer) list to the most common concerns had been developed. Internal communications newsletters and the integration website helped to inform both partners in several languages about projects, workshops, locations and teams. The strongest critique concerning communication has been that the initial communication with the acquired firm was very strong, but there was little information passed on to the employees from the acquiring side. Employees mentioned that they felt they did not know how their organization and daily work would be affected by the integration until several weeks after “Day One”. The communication of managers from both companies from an early stage was not initiated immediately as the structures were not clear. This means it took several months until managers knew who their counterpart was and could start to create informal coordination. This is why the communication has been evaluated as medium successful.

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101 Interview 4
102 Interview 5
Managing human resources during the acquisition needs to be a priority and this point is strongly connected to the communication. Human resources need to be aware that a change period can provoke valuable human capital leaving the company if the situation is not managed adequately. In this case there have been several people leaving the company after the takeover. This is not necessarily based on a management problem. Restructuring to achieve synergy effects will always make some employees uncomfortable and put into a new situation. What still is lacking at the moment is the possibility to relocate some employees to be able to mix the teams between the former separate organizations. This would support knowledge transfer and learning. This is why the human resources management in the integration has been evaluated as medium successful.

Speed is a crucial factor in integration two companies successfully. One thing that can be said for sure is that the integration was not done in the six months or ’100 days’ recommended in literature. Cultural differences and organizational structures played a significant role in not terminating the integration in the planned time. 15 months after the takeover the integration team had dissolved. Though, there were still parts of the organization where the new structure was not clear yet. The honeymoon period in the beginning lasted for several months in which no big changes were introduced. This is why this success factor is evaluated with a low performance towards the total integration.

The last factor that needs to be evaluated is whether the measures were aligned or not. It has been highly successful. Financial and IT systems were rapidly implemented in the new organizations. On the first day, at the announcement of the merger company X’s internal computer systems and Wi-Fi networks were available at all of company V’s locations. The overall objective and vision for the integration was created in cooperation of both management sides.

The only improvement that could still be done is to broadly train all of company V’s locations in the new corporate policies, systems and tools to make the processes more understandable.

6.2 Recommendations

Company X has undergone M&A activities frequently or even several times a year. The extend reaches from acquiring a local sales organization or manufacturing plant, to organizations with several thousand employees that might even double the total organizational size. Taking this

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103 Interview 4
104 Interview 2
into consideration, the following recommendations are not orientated towards the case analyzed in this thesis, but towards taking the lessons learned and applying this in future M&A activities. The very first recommendation is to gather all information on past M&A transactions and collect a lessons learned catalogue. This paper gives an idea for the merger between company X and V, but several others are still to be analyzed. It is suggested to choose a broad range of past mergers that vary in size and importance, but do not go back too far into the past, so that the information is still fresh in the organizational mind is advisable. This information should be gathered and evaluated. Possibly a cluster to group the lessons learned will help to prepare the dater for future use.

Since M&A activities is such a common and important topic within the organization and its strategy it is suggested to create a central function that is responsible to guide all M&A activities through all its phases. The central function should be made up by employees with past experience in M&A, integrations and with a methodological skill set to analyze the situation and define actions.

This function should be part of the evaluation of possible future partner and their organizational fit simultaneously as the financial analysis is taking place. Depending on the level of expertise that is available in the central function as well as the strategic reach of the M&A transaction that is being assessed it should be evaluated whether or not an external consultancy agency could be involved. As this typically required a significant amount on financial resources, this is to be decided on a case to case basis. Anyhow, it is strongly recommended to use a software such as was presented in chapter 7.1.4 to evaluate the cultural fit or the company under analysis. This will prevent the subjective viewpoints of the top management to stop leading them to the final decision making for the company’s future. Additionally to giving input on M&A decisions these results should be used as a guideline on the corporate culture and aligned with HR efforts in order to steer the culture in the wanted direction.

At one point in the evaluation of the fit of the possible future partner a review should take place where the results of the cultural and organizational research is presented and the central function can give their view on the compatibility. This needs to be taken into consideration by the top management ultimately deciding on the deal as well as financial forecast need to be adjusted accordingly.

Anyhow, once the M&A is decided a clear action plan should be developed by the top management of both companies in cooperation of the central function. This means that an agreement must be made about the synergies and growth expected will only be reached, if the cultural and
organizational integration is a success. And by including actions in this direction the probability is high that the company will be more successful in its future integration.

As one of the success factors is to pay the right price, a multilevel internal structure for reviewing the calculation and financial forecast should be created. If possible a standardized way of calculating the prize could be intended to define. This would eliminate a too positive estimation by manager in order to push the purchase.

Also to be able to be sure that the highest effect from past M&A has been drawn and is passed on to future ones a guideline is necessary. This guideline should contain details as to actions and steps that are recommended after “Day One”. It will support in giving information as to which event, information, communication etc. will be required to do in which timeframe. Depending on how detailed this guideline is the requirements for the integration team can be defined. If the guideline is very detailed the integration team can be a group of fulltime people that know the organizations very well, but not necessarily have experience in integration projects. They will be guided by the central function. The integration team should be selected from both organizations based on their soft skills and organizational expertise as well as project management experience.
7 Outlook on the topic

2015 and 2016 showed a boom in M&A activities. Once companies have gone through the process of analysis of a merger and finally the contract has been signed, a whole new process starts. M&A analysis is a highly relevant topic and specially the post-merger integration. This last part of the process is often not given the importance, resources and planning it requires. Planning the integration phase for future M&A in a different way, based on the findings for the thesis will reduce the failure rate significantly. Integration of the two companies is as important as the selection of a right partner. Only if the integration is successful, the full synergy effects projected from a merger can be realized.

The case of the merger of company X and V was analyzed taking into consideration several layers of factors of success. Multiple of factors showed to have been successfully applied and implemented during the process. Others were not given the importance. Ultimately it can be said that corporate culture and organization of the two companies were compatible to a certain degree and that the merger was successful from this point of view although no previous analysis had been done. The sum of all factors was not enough to reward a fully successful integration as the new company did not reach sales and revenue goals. Year end results of 2015 showed that the sales were about 20% off target.

Furthermore, the thesis explains how to increase the success rate of future mergers applying lessons learned from this case. Actions as creating a specialized and centralized team for analyzing financial data, culture and the integration plan will give strong support for future mergers. A company this size should look to standardize the process of mergers using guides and lessons learned catalogues.

The heart of the thesis is the analysis of success factors for the integration of two companies after a M&A. Chapter 5 lays out the theoretical background in order to take a practical approach in chapter 6. Informal and formal success factors were named.

This paper showed organizational structures and cultural differences as two important factors for success. Corporate culture is difficult to analyze as well as change, but anyhow it plays a significant role in growing a prosperous, new organization with two healthy members. Manager often play the key role in the process. It has been generally accepted that culture is an important factor. Nevertheless, organizational and cultural integration with a practical approach has not been center of investigation so far. This makes it complicated for companies to apply although they understand the importance. Models that are used in literature often do not present the total M&A process and initiate when the process has already advanced. The models used in this
thesis are selected in order to explain the wide reach of integration which starts in the pre-phase with cultural due diligence and continues throughout the process. Furthermore, practical recommendations and tools are shown in order to transfer knowledge from literature to the case. Taking these recommendations and applying them to future mergers mistakes do not have to be repeated and the success rate in M&A activities highly increased. As the trend for consolidation seems to continue the relevancy of this study will increase throughout the following years.

It is of highest importance that corporate culture and organizational structures are considered in the early phases of integration in order to be successful in a M&A activity and to leverage on the highest degree of synergies.
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Appendix

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Appendix 1: Questionnaire of dimensions of organizational culture

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Statement (item)</th>
</tr>
</thead>
</table>
| Involvement        | 1. All employees have favourable conditions for decision making and for giving various ideas, suggestions, notes and so on  
                    | 2. There are created good conditions for the interesting work, therefore employees get used to their work willingly  
                    | 3. Managers request subordinates (they collaborate)  
                    | 4. Teamwork is used more often than individual work, especially when solving important questions or projects  
                    | 5. When problems, difficulties or questions arise, employees solve them more individually than by consulting one another |
| Transmission of information | 6. New or other important information reaches employees in due time  
                               | 7. Employee is often lacking information, which is necessary to make decision or to work  
                               | 8. Employees (also managers) often misunderstand each other (improper transmission of information)  
                               | 9. Managers do not provide feedback to the employees |
| Learning           | 10. It is permanently invested into knowledge and skills of employees (different courses are offered and so on)  
                               | 11. Managers improve themselves permanently  
                               | 12. Employees teach each other, share skills and knowledge  
                               | 13. Various investigations (e.g. of product characteristics, consumers and personnel needs) are made permanently |
| Care about clients | 14. Employees look after clients and satisfaction of their needs permanently  
                               | 15. Dissatisfaction of clients is always removed  
                               | 16. If it is offered to the client, what enterprise thinks is better, but not this, what client desire  
                               | 17. Enterprise inquires customers opinion about products/ services and improvement of them and takes that into account |
| Adaptability       | 18. Enterprise responds always to the changes in external environment  
                               | 19. Work is performed strongly, if enterprise meets serious problems  
                               | 20. Many problems are ignored (employees/managers do not respond to them; they are not solved)  
                               | 21. Managers keep up affairs and news in domestic market, abroad and strive to improve the work |
| Strategic direction | 22. It is difficult for employees to adapt to novelties and changes in enterprise  
                               | 23. Enterprise has a long-term strategy, plans and goals  
                               | 24. Goals and plans are achieved purposefully  
                               | 25. Your enterprise is as leader showing direction, other enterprises “follow” it |
| Reward and incentive system | 26. Work is planned so, that everybody knows what and how to do his/her job  
                                        | 27. Vision of enterprise becomes reality little by little  
                                        | 28. Reward system is correct (employee is getting salary/ wage according to the results and efforts)  
                                        | 29. It is always rewarded (in monetary or other form) for the good works, ideas, innovations and so on |
| System of control  | 30. Existing rules and norms are more directive (i.e. show direction) than restrictive  
                               | 31. Existing rules and norms are more directive (i.e. show direction) than restrictive  
                               | 32. Employees too much freedom, they think that manager must show direction  
                               | 33. Managers do not control subordinates too much |
| Communication      | 34. Managers more often ask than command  
                               | 35. Managers’ teaching and deeds are always at variance  
                               | 36. Manager always strives to help and advise employee  
                               | 37. Communication between employees is friendly (more informal than formal) |
| Agreement          | 38. Managers are unified as family  
                               | 39. Employees always agree about most important things, when solving questions, problems or conflicts  
                               | 40. Employees often do not approve of changes and resist or behave indifferently  
                               | 41. Employees agree about most rules, norms, values (they think these things are right) |
| Coordination and integration | 42. Different departments (groups) have difficulties when carrying out common activity, sharing information and so on  
                                        | 43. Departments (groups) have many common things (goals, tasks, celebrations and so on)  
                                        | 44. Employees are satisfied as family  
                                        | 45. It is very hard to work with person from other departments/ group |


Appendix 2: Interview Guideline

A) Data of the interviewee:

1. Position:

2. Company pre-merger:

B) General questions concerning Integration:
1. Were you informed about the goal and advantages of the merger?

2. What are your thoughts on the merger?

3. What was your role in the past integration of companies?

4. How many and which integrations have you been though?

C) Success factors in the Merger of company X and V:

1. What are the most important success factors in integration from your point of view?

2. Can you explain the cultural analysis of the parties that was performed and in which stage it was applied?

3. How did you link the action plan to the analysis?

4. Can you define what corporate culture is for you?

5. How would you describe the corporate culture in the two companies that were merged? (*Values, habits, norms, structure, leadership*)

6. Could you describe the differences in corporate culture you noted?

7. How does the corporate culture affect the integration?

8. How does the integration process has to be adapted from your point of view in order to take into consideration both parties corporate culture?

9. Can you describe how the organizational integration was managed during the integration?

10. What has been successful in the past integration?

11. What are/were the biggest obstacles?

Appendix 3: List of people interviewed

1. Position: Global Head of R&D  
   Management level: Senior Executive  
   Company: V

2. Position: Operations Manager NAFTA  
   Management level: Senior Executive  
   Company: V

3. Position: Segment leader NAFTA  
   Management level: Senior Executive
4. Position: Project Integration Manager
   Management level: Executive
   Company: X

5. Position: Integration Communication Manager
   Management level: Executive
   Company: X

6. Position: Integration Manager
   Management level: Senior Executive
   Company: X

7. Position: Sales Manager Latin America
   Management level: Middle Management
   Company: X

8. Position: Synergy Task Force Manger
   Management level: Executive
   Company: X