Post-acquisition management of corporate take-overs in the United Kingdom

by

Duncan N. Angwin

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Summary

This thesis sets out to provide a systematic examination of post-acquisition management in the United Kingdom. In particular we are concerned to know what changes take place in acquired companies after acquisition and to examine whether there are significant and robust differences between post-acquisition styles in terms of the type and volume, of changes made, and their timing. We also examine the patterns exhibited by different types of managing executive taking charge and seek to link executive type, volume and timing of change with different post-acquisition styles.

The thesis uses a hybrid method to achieve a cross sectional view of acquisitions in the UK with in-depth explanation. The responding sample from our survey was allocated to the different acquisition types of Haspeslagh and Jemison's (1991) typology and the change data allowed us to test whether the framework is representative and robust.

The first Chapter of the thesis observes that many acquisitions fail and that greater attention should be paid to the post-acquisition phase, although, as Chapter two shows, the post-acquisition literature is highly fragmented. Only Haspeslagh and Jemison's (1991) typology attempts a unified view although it has limitations. We draw upon related areas of research to enrich and extend their framework. In Chapter three we show how data was collected and applied to the framework, and Chapter four shows the big picture of acquisition types in the UK and their associations with success. Chapter five uses functional change data to test the framework and interview material to provide a level of explanation for changes made. The reasons for each type of acquisition are explored in Chapter six and in Chapter seven we examine the association between managing executive type and acquisition style. Chapter eight introduces a time component and looks at the patterns of change for each acquisition type. The chapter aims to integrate earlier findings and provide an integrated view of post acquisition change.

The final chapter concludes that for acquisitions in the UK, there are significant differences in post acquisition styles, in terms of nature and timing of change, and there are clear associations with different management types.

1. The acquisition problem

1.1 Introduction

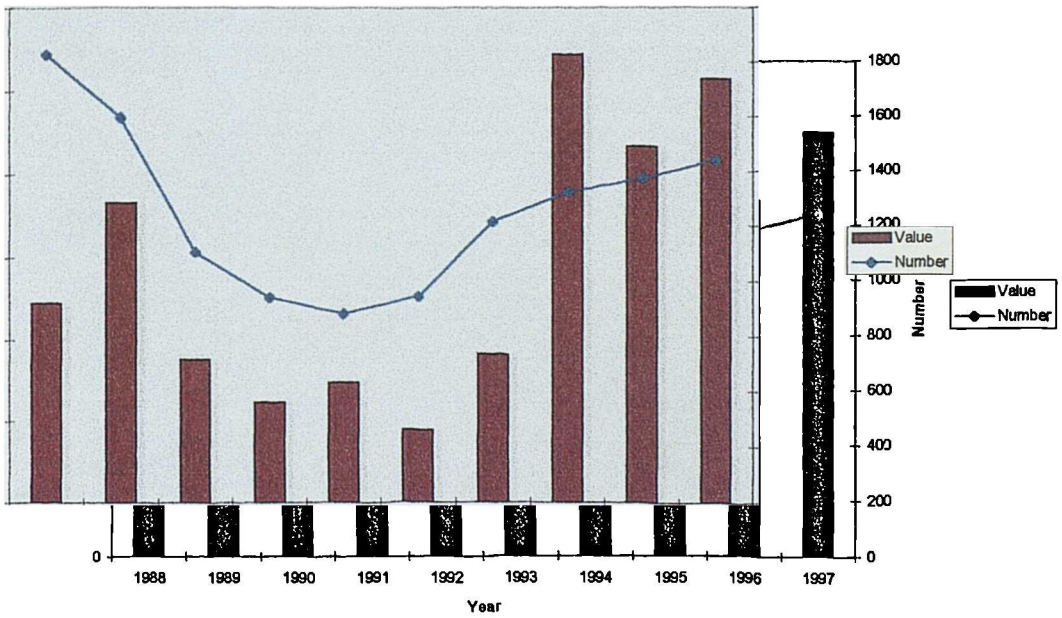
Acquisitions are an increasingly important area of UK corporate activity. Acquirers however appear not to benefit as fully or as often as one would expect from the recorded levels of take-overs. This chapter will show how considerable research effort has attempted to explain these short comings by seeking to link acquisition performance with pre-acquisition characteristics. It will also show that growing and widespread dissatisfaction with this approach has led attention to focus upon the mitigating effects of the post-acquisition phase.

This thesis will contribute to this focus upon the post-acquisition phase by examining the initiation of post-acquisition changes in companies acquired in the UK. This perspective is also consistent with the general trend in strategic management towards the issue of implementation.

1.2 The importance of acquisitions

Acquisitions have long been a distinctive and increasingly important feature of business in the UK. In the last ten years, 1988 to 1997, the UK has seen 10,679 acquisitions[1] valued at £280bn (Acquisitions Monthly, 1998). Figure 1.1 shows the ten years spans the end of one wave of activity and the beginning of another, with volume and value declining in the late eighties, a nadir in the early nineties and a resurgence of activity in 1994 - 5.

Figure 1.1: Corporate Acquisitions in the UK by value and number



Source: Acquisitions Monthly (March 1998)

[1] These figures are for acquisitions of PLCs, private companies and MBOs

Acquisitions represent an enormous redistribution of resources and this has ensured intensive media coverage. In the UK the growing numbers and size of deals has been a source of concern to academics, business and political leaders alike as they strive to decide whether this is a desirable trend for national and regional economies. At the regional level the closure of a major manufacturing concern such as a ship builder, car manufacturer or TV centre, such as the shut down of Central TV studios in Birmingham by Carlton PLC, can have significant regional consequences for economies, unemployment levels, local prosperity and pride. Hughes (1993: 72 - 74) in a survey of the empirical evidence cites several studies (Massey and Meegan, 1978, Leigh and North, 1978, Millward and McQueeney, 1981) which show that post-merger restructuring can weaken regional growth prospects. Low level management activities remained in the area but head office functions were frequently relocated outside the region. A more recent study of the regional effects of external take-overs focused upon the Scottish economy from 1965 - 1989. Ashcroft and Love (1993) examined 395 external take-overs of manufacturing companies with assets in excess of £1m (1975 prices). They show that the regional effects of acquisition were negative in the short term as acquired companies, particularly the larger ones, reduced their organisational functions and local linkages (Ashcroft and Love, 1993: 107).

Mergers and acquisitions are the only way for rapidly restructuring an industry by increasing its concentration. The accountancy profession has been through a wave of mergers resulting in the 'Big Six' and pundits are now watching both

the accountancy and legal professions in anticipation of further take-overs as operating on a global basis becomes increasingly attractive. Whilst acquisitions occur in waves (Golbe and White, 1988, Ravenscraft, 1988), and have been popularly characterised as driven by diversification in the 1960s, break ups and restructuring in the 1980s to correct the mistakes of the earlier conglomerate boom (Browne and Rosengren, 1988, Shleifer and Vishny, 1991: 54) and perhaps are now 'reminiscent of a wave in the late 19th century that created corporate behemoths' (Wall Street Journal, 26.02.97), for the mid 1990s, explanations for these waves have been hard to substantiate. Ravenscraft (1988), for the US, argues against fluctuations in cyclical variables such as low interest rates and high share prices and points to the deregulation of certain industries and less restrictive anti-trust enforcement. In the UK there is currently a great deal of recent de-regulation in the energy, utilities, transport and finance sectors and attention is now focused upon the impending building society privatisations which may result in several major acquisitions.

Acquisitions are occurring in increasingly large volumes in the UK with wide ranging implications for national and regional economies, industry structures and firm stakeholders. However, as the next section will show, many acquisitions are deemed to be failures. Given the magnitude of the phenomena, it is important that we should achieve a better understanding of acquisitions so that we may improve the chances of success.

1.3 Acquirers lose out

With such a volume of acquisition activity one would expect that, by and large, there would be substantial evidence that acquisitions are successful. However, the evidence cited below shows that a high portion of acquisitions fail. Performance studies have examined the issue of success and concluded that where there are benefits these generally accrue to the acquired company rather than the acquirer. This raises the question of why firms continue to acquire when they do not appear to benefit. We suggest that this is due to an underestimation of the important mediating influence of the post-acquisition phase.

The acquisition literature abounds with statistics of failure, the most often cited studies being Kitching (1974 b) stating that 47% of acquisitions in the UK failed or were not worth making, Hunt, Lees, Grumbar and Vivian (1987) suggesting a failure rate of 45% and Coopers and Lybrand's survey (1992) showing that 54% of acquisitions fail.

There is a substantial literature which seeks to evaluate the performance of acquisitions. Its findings vary as different disciplines have led to different performance related questions, levels and methods of analysis.

Two main schools[2] of thought on whether acquisitions are successful (Browne and Rosengren, 1988: 1-2), are i) financial and ii) industrial economists. These schools are distinguished by different measurement approaches with the former relying upon short event windows and the stock market as accurate reflection of company value, and the latter eschewing these indicators and adopting product and accountancy based measures as performance indicators.

i) **Financial economists** generally seek to examine whether acquisitions create value and for whom. Their work[3] takes as a sign of wealth creation, any immediate increase in market value at, or in anticipation of, acquisition[4]. Examples of studies on the returns to bidder and target shareholders are shown in table 1.1.

Table 1.1 Abnormal returns to shareholders

Authors	Date	Event[5] window	Period and sample	Gains to bidder shareholders %	Gains to target shareholders %
Jensen and Ruback	1983	Various	Summarised 13 event studies in US	0 - 4	20 - 30
Jarrell and Poulsen	1989	30 days	526 exchange listed targets in US	1	29

[2] These two groups are described as the Capital Markets school by Haspeslagh and Jemison (1991: 293)

[3] Based upon efficient market theory: the market value of a firm's stock price is an accurate reflection of the present value of all expected future benefits.

[4] After allowing for normal market fluctuations.

[5] Event Studies , or abnormal returns methodology, are characteristic of this school. It compares the returns to shareholders of both bidders and targets during a period surrounding the take-over announcement, to 'normal' returns from a period unaffected by the 'event'. These event 'windows' are often short, ranging from a few days to a month.

Table 1.1 (contd)

Franks, Broyles and Hecht	1977	1 month	70 mergers 1955 - 1972 in UK	-0	26
Franks and Harris	1989	1 month	1,445 targets 1955 - 1985 in UK	0	22
Sudarsanam, Holl and Salami	1993	10 days	171 targets in the UK	-2.0	21

Financial economists seem to agree that acquisitions create wealth but the benefit is for acquired firm shareholders rather than acquiring firm shareholders.

Finance scholars, with deep reservations about the use of short event windows, have argued that acquisitions are in fact more attractive for acquirers than has been suggested. They have attempted to examine acquisitions over longer time periods and argue that this leads to different conclusions about wealth creation for acquirers. Table 1.2 shows studies using performance data for just the acquirer.

Table 1.2 Acquirer's performance post-merger

Authors	**Date**	**Acquirers**	**Data**	**Performance period**	**Return**
Franks and Harris	1986	1,048 in the UK	1955 - 1985	2 years	-12.6
Limmack	1991	448 in the UK	1977 - 1986	2 years	-4.5

Reviewing the evidence from the UK and US, Sudarsanam (1995: 227) remarks that there is consensus that target shareholders gain wealth from mergers but that evidence of wealth gains to acquiring company shareholders and improved post-acquisition performance is not conclusive. The question for these two schools of thought therefore, is 'why do firms continue to acquire when they do not appear to benefit?'

A number of suggestions have been put forward to solve this riddle apart from the inadequacies of methodologies to reveal benefits. These include managers making mistakes in estimating the value of the proposed acquisition (Lubatkin, 1983) and, accepting the efficient market hypothesis, that bidders presume their valuations to be correct and so over valuations persist, described as a "Hubris Hypothesis" (Roll, 1986). In line with agency theory, managers may also be aiming to maximise their own wealth at the expense of shareholders (Lubatkin, 1983). Larger companies are associated with improved benefits and greater power for managers, a stepping stone to personal rewards and advancement as well as a device to enhance their own reputations (Jemison and Sitkin, 1986: 110). Trautwein (1990: 292) in a survey of seven areas of merger explanations concludes that managerial empire-building has a high degree of plausibility. In addition there may be an advantage to managers increasing the size of their companies because the ability of shareholders to monitor them decreases as the organisation becomes larger and more complex (Wiedenbaum and Vogt, 1987).

A further suggestion is that there may be a cost in unforeseen administrative problems (Lubatkin, 1983) which acknowledges the important influence of the post-acquisition period upon acquisition success. We will argue that the post-acquisition phase is critical to acquisition outcome and shall return to this issue in section 1.5.

ii) Industrial economists are less willing to accept the view that event studies are a valid way of measuring wealth creation and that the stock market is efficient in accurately valuing companies. Instead they have used product-market and accounting based measures of profitability to assess post-acquisition performance of the acquiring firm. Their evidence is that acquisitions do not increase the profitability of the acquiring firm. In the eyes of industrial economists, 'most acquisitions are unsuccessful in terms of increasing profitability and market share; transaction costs tend to reduce hoped-for gains' (Browne and Rosengren, 1988: 2).

Using accounting measures, industrial economists argue that longer time based findings throw doubt on whether acquisitions are on average efficiency - enhancing[6]. Ravenscraft and Scherer (1987) examined the long-run profitability of 5,822 acquisitions in the US from 1950-1977. Their findings were that 'on

[6] Essentially reported post-acquisition profits are compared to the weighted average of the pre-bid profits of the acquired and acquiring firms and calculated relative to the performance of the companies own industries or the performance of a sample of non-acquiring firms (Sudarsanam, 1995: 219). If acquisitions lead to economies of scale or scope, post merger profits should rise relative to pre-merger profits and peer industry averages. Difficulties with the method include variations in accounting practice, the way the acquired company is consolidated and acquisition accounting which may depress profits.

average, profitability declines and efficiency losses resulted from mergers of the 1960s and early 1970s' (Ravenscraft and Scherer, 1987: 211-212). In terms of the acquired company, 'seven or eight years on average following merger, acquired units' profitability[7] had declined sharply relative to pre-merger levels' (Ravenscraft and Scherer, 1989: 115). Other studies by Meeks (1977), Kumar (1984) and Herman and Lowenstein (1988: 231) also found significant declines in acquirers profitability. In Herman and Lowenstein's words (1988: 231) the 1980s bidders 'suffered an immediate and sharp decline in profitability'.

In his review of the literature, Hughes (1993) concludes that 'there is not much support here for the view that merger raises relative profitability[8]. The clear impression is of a small, variable, but negative impact' (Hughes, 1993: 62)[9].

Industrial economists have also looked to the impact of acquisitions upon the subsequent market share of the combined firms, as market share is positively related to profitability and a frequently cited objective of corporate management (Mueller, 1985: 259). Mueller (1985) used market share data for the 1,000 largest companies of 1950 and 1972 and computed market shares for conglomerate and horizontal acquisitions. Controlling for other factors unrelated to acquisitions by comparison with a sample of un-acquired firms, Mueller

[7] Operating profits

[8] Hughes (1993) cites a number of studies compensating for any accounting bias (i.e. Singh, 1971).

Researchers aware of the limitations imposed by accounting rules, have used operating cash flows as a profit measure (see Healy, Palepu and Ruback, 1992, Manson, Stark and Thomas, 1994). Their results on operating cashflows may paint acquisitions in a more positive light but for the moment, more evidence is required on large samples and there are questions over the particular measure of cash flow used (Sudarsanam, 1995: 220-221).

shows that acquired companies experience substantial losses in market share relative to control companies (Mueller, 1985: 259). His data implies that an un-acquired business on average retained 88% of its 1950s market share in 1972 whereas an acquired one retained only 18%. The size of the reduction in market shares leaves little doubt that significant declines in market shares followed changes in control (Caves, 1988: 158).

Despite the qualifications stated by Mueller (1985: 264), in particular that horizontal mergers will see some market share given up in exploiting market power, 'the dramatic size of the share declines seems blatantly inconsistent with any persistent efficiency gains from mergers' (Caves, 1988: 158). 'No support was found for the hypothesis that mergers improve efficiency by consolidating the sales of the acquired companies on their most efficient product lines' (Mueller, 1985: 266). This again raises the issue of management in the post-acquisition phase as a major influence upon performance.

Further evidence of poor acquisition performance has been seen in high rates of divestiture. After all, if an acquisition was succeeding, why would a firm sell it? Porter (1987) studied the diversification track record of 33 large US companies from 1950 - 1986 and found that of the 2,021 acquisitions made, 58.5% made by 1975 had been divested. 61.5% of acquisitions in new fields and 74.4% of unrelated acquisitions were subsequently divested. This result has been supported by Caves and Barton (1988) who found a negative relationship between technical efficiency and the extent of corporate diversification. They

attribute this result to the difficulties of managing disparate lines of business and sees this as supporting the argument that diversifying acquisitions in particular are unproductive. Ravenscraft and Scherer (1987) have also suggested the 'lemon' problem and mention that opportunity costs of managerial effort was high and figured as strongly in the divestment decision as the opportunity cost of funds.

However it should be noted that the notion of divestitures as a clear indicator of acquisition failure does have its critics. Weston (1994) suggests that there are flaws in Porter's methodology and also interprets divestitures as a healthy sign of dynamic companies readily adapting to changing environments rather than companies selling because their acquisitions have under performed. This may well have implications for the way in which acquisitions are managed. The literature tends to assume that acquisitions are integrated with the acquirer but Weston's (1994) line of argument would seem to suggest that they may well be held more at arms length than has hitherto be supposed. This line of argument will be explored later in the thesis.

1.4 Pre-acquisition explanations

The evidence presented above has examined the broad issue of whether acquisitions are successful. Their general conclusions are that a high percentage of acquisitions fail. In order to discover reasons for this poor performance,

considerable research effort has been directed towards pre-acquisition characteristics on the assumption that they are directly linked with post-acquisition performance. The two main schools of thought in this area are i) the financial economists and ii) the strategic performance school. However, as the following discussion will show, they have not been very successful in explaining post-acquisition performance by using pre-acquisition characteristics.

1.4.1 Financial economists

The financial economists have focused upon how acquisitions are funded and whether take-overs are contested or friendly. In terms of how acquisitions are funded, whilst practitioners make a great deal of the complexities of financing take-overs (see Harrison and Collier, 1989), the academic evidence suggests that the way acquisitions are funded makes little difference to the acquiring company shareholders in the UK (Franks, Harris and Meyer, 1988, Salami, 1994 (cited in Sudarsanam 1995: 193). In terms of whether outcome is affected by the take-over being friendly or hostile, Browne and Rosengren (1988) observed benefits accruing to the target shareholders are as least as good for hostile take-overs as for other acquisitions. Jarrell and Poulsen (1994: 292) examined 450 tender offers between 1963 - 1986 and suggest that, just for the 1980s, where competition for the target company increases, returns to acquirers are lower due to increased litigation and being forced to pay higher premiums. Their limited time frame and definition of hostile as contested bids means they may just be

commenting upon bargaining rather than really testing hostile versus friendly. It is uncertain therefore whether an acquisition is hostile or friendly will determine outcome.

1.4.2 Strategic Performance School

The 'Strategic Performance School' has examined firm-specific characteristics such as relatedness, relative size, market share, pre-acquisition profitability, growth and experience to understand why acquisitions fail. Kitching's (1967) classic paper investigated the views of twenty five top level executives, on acquisitions where two to seven years had elapsed. The focus of the interviews was the explanation of executives for their most successful and least successful acquisitions. These views were then cross checked by comparing pre-acquisition financial forecasts with post-acquisition results. From this investigation, Kitching (1967: 41) concluded that acquisitions, where the acquired firms had pre-acquisition sales of less than 2% of the acquirer, experienced a failure[10] rate of 84%. In a later paper, Kitching (1974) focused his attentions upon US multinationals acquiring in Europe. After interviewing ninety five top - level executives, about their views on the success and failure of four hundred and seven acquisitions made between 1965 - 1970, Kitching (1974a: 124) concluded that profitability, size and market share of the acquired companies were critical to success. In a survey of 145 British acquisitions, Kitching (1974b) noted that

[10] Success and failure in all Kitching's studies is a retrospective judgement placed on a -5 - +5 scale.

where the acquired company had a poor pre-acquisition track record, the acquisitions subsequently failed in 42.8% of cases, with a further 19.1% of cases being perceived as not worth doing. Pre-acquisition 'high fliers' on the other hand, failed in just 27.8% of occasions (Kitching, 1974b: 84). The issues of relative size and pre-acquisition performance have been born out by later studies (Kusewitt, 1985, Shanley, 1987) whereas the ideas of market share and pre-acquisition experience have proved more elusive.

Kitching's (1967, 1974a, b) studies all investigate whether the degree of relatedness, between target and parent companies, is linked to acquisition outcome. The concept of relatedness has attracted a great deal of attention in the Strategic performance school, particularly through studies on corporate diversification (see Ramanujam and Varadarajan, 1989 for a review). However there is no common acceptance of the relationship between diversification and firm outcomes (Hoskisson, Hitt, Johnson and Moesel, 1993). Although Hoskisson et al. (1993) help to support the robustness of Rumelt's (1982) classification scheme, acquisition studies have found the link with performance to be elusive.

Kitching's work (1974a), concluded that related acquisitions out performed unrelated acquisitions. Chatterjee (1986) concluded that targets in unrelated mergers performed better than those in related mergers. Singh and Montgomery (1987) in an event study of 203 target firms, 1970 - 1978, reported higher abnormal returns for related target and this finding is supported by Shelton

(1988) who studied 218 acquisitions from 1962 - 1983. Lubatkin (1983) however, in a sample of 340 target firms between 1948 and 1975 concluded that related mergers do not create more value than unrelated ones.

The confusion over the nature of the diversification - performance relationship (Reed and Luffman, 1986) may be in part due to methodology (Venkatraman and Grant, 1986) such as sampling biases and problems of measurement. In particular important variables may not be controlled for, such as internationalisation or the mis-application of Rumelt's (1982) categories. A more critical interpretation however would suggest that the phenomenon is more complex than this type of analysis allows for. In particular, these studies assume that pre-deal formulations will be directly linked to post-acquisition results. In adopting this approach, they ignore the issue of post- acquisition implementation which can significantly influence acquisition outcomes (Datta and Grant, 1990). As we shall argue in the next section, effective implementation is very important in achieving post-acquisition success.

Overall then the Strategic Performance School has helped to furnish us with a few insights in terms of variables associated with performance but as the above debate on relatedness shows, we still seem a long way from arriving at a complete explanation for poor performance. This strongly suggests that we need to re-focus our attention upon the post-acquisition phase as this clearly mediates as between pre-acquisition characteristics and post-acquisition performance.

1.5 The post-acquisition focus

The growing dissatisfaction of pre-acquisition factors as explicators of acquisition outcome has led to increased research efforts on the post-acquisition phase as the key determinant of acquisition outcome. As a harbinger of this increased attention, Kitching (1973) observed that, 'one third of all merger failures are caused by faulty integration'. The importance of the post-acquisition phase in affecting acquisition outcome is well illustrated in a key study by Souder and Chakrabarti (1984) of sixteen acquisitions by eight firms. From their top executive interviews, they show that most of their ten acquisition motives did not correlate significantly with post-acquisition performance, and indeed those that were correlated, were negatively related. Souder and Chakrabarti (1984: 46) suggest that the post-acquisition phase is a longer and more substantial task than hitherto realised and that greater success can be achieved by a 'patient partnership' mentality where both parties work together once the deal is concluded.

Shanley (1987), in a study of fifty one firms by structured questionnaire and two dozen follow up interviews, has also examined the link between pre-acquisition factors and post-acquisition variations. He found that the variations were not well explained by pre-acquisition factors and argues for a weak-linkage model of iterative change rather than a strong linkage model based on pre-acquisition planning. Angwin, Wensley and Ernst and Young (1995) also observed the gap between pre-acquisition planning and post-acquisition implementation. They

carried out forty nine semi-structured in-depth interviews with top executives in seven companies to establish whether there was a coherent picture of the acquisition process. Whilst there were different perceptions of aspects of the acquisition process, based upon executive responsibilities, there was a clear agreement upon the dis-connectedness between the pre and post-acquisition phases.

Organisation researchers point to the implementation phase as a key success factor. Potential synergies will result in superior performance only if these can be realised though effective post-acquisition implementation (Olie, 1994). Many scholars would now accept that the value from acquisitions is created or destroyed once the acquisition has been made (Deiser, 1994: 360 - 1). 'The integration process is the key to making acquisitions work. Not until the two firms come together and begin to work toward the acquisition's purpose can value be created' (Haspeslagh and Jemison, 1991: 105).

The implementation phase is clearly problematic. One of the manifestations of these difficulties is evident in human factors. There is a large body of literature on this issue from the Organisational behaviour school. The human consequences of acquisitions are a very visible 'fall out' from take-over activity. They are evident as strikes, redundancy and even sabotage (Buono and Bowditch, 1989, Mirvis and Marks, 1992). Such dysfunctional activity can clearly disrupt the best laid plans and indeed Walters (1985) has estimated that such cultural factors can cost as much as 25% - 30% in lost performance. The

visibility of culture collision (Buono and Bowditch, 1989) has led to researchers concentrating upon cultural fit or compatibility between organisations (Cartwright and Cooper, 1992, 1996).

On a broader front there is the issue of organisational fit, 'a necessary condition for the effective realisation of the potential synergies' (David and Singh, 1994). An example of this approach is by Schweiger, Csciszar and Napier (1994) who examine different activities in the value chain as a basis for examining the fit between two organisations. The assumption is that the combination of independent value chains will imply different types and degrees of technical configuration changes depending upon what is needed to capture synergies. The only quantitative empirical contribution appears to be Chakrabarti (1990) who relates organisational fit to performance. He found that the state of collaboration between organisational units was strongly related with the performance of the acquired division. In addition he reinforced the view held above that strategic objectives and relatedness did not correlate with post-acquisition performance.

The post-acquisition phase clearly interferes with the link between pre-acquisition characteristics and post-acquisition performance. It is where the value from an acquisition is won or lost. However research into this area has been heavily weighted towards organisational behaviour issues. There is a need for further strategic enquiry into changes that affect all aspects of the organisation, rather than just focusing upon the human impact. This change of

emphasis, from pre-acquisition issues to the post-acquisition phase, is consistent with current trends in strategic management in general.

1.6 Trends in strategic management

The focus upon the post-acquisition phase has echoed the trends in the development of strategic management. The orientation of the Strategic performance studies, focusing upon pre-acquisition characteristics, harked back to the Classical view (Whittington, 1993: 11) or Planning school (McKiernan, 1997: xix), that strategy could be formulated in a deliberate manner and implementation would follow. 'Objectives were thereby achieved and the strategy realised' (McKiernan, 1997: xix). This view assumed that strategy formation is a controlled conscious process and that implementation is a distinct phase (Mintzberg, 1990). In McKiernan's (1997: xvii) view, this 'division between formulation and implementation has left permanent and indelible scars'.

The failure in the strategic planning approach, or Design School, was highlighted by Mintzberg's critique of the formulation - implementation dichotomy (Mintzberg, 1990). Companies became disenchanted with the approach as few intended strategies were successfully realised. Fortune (cited in Mintzberg, 1990), suggested that 'fewer than 10% of American corporations implemented their intended strategies', which Tom Peters regarded as a 'wildly

inflated' estimate. 'A decade of empirical investigation confirmed what most suspected, i.e. that perfect and deliberate strategies are rare' (McKiernan, 1997: xxii).

In the context of acquisitions, we have seen in section 1.4 that there has been considerable effort aimed at trying to link pre-acquisition factors to post-acquisition outcome. Implicit in this has been the notion of strategy as 'grand plan' (Whittington, 1993), where effort is put into the planning, design and decision surrounding an acquisition, from which results are then assumed to flow. This assumption suggests that ' the carrying out of orders is relatively unproblematic, a sured by military discipline and obedience' (Whittington, 1993: 17). However the poor record of acquisition success suggests that the 'planning' approach to acquisitions is insufficient in itself as the implementation phase plays a crucial inter-mediating role.

In the strategic management literature, the strategic planning approach was heavily criticised by the Processual school (Mintzberg, 1987, 1990, 1994, Pettigrew, 1985). They downgraded the importance of rational analysis and directed attention to the internal complexities of the organisation which had served to confound grand strategic plans. For the Processualists the separation of formulation and implementation is artificial, 'a self-serving top management myth' (Whittington, 1993: 27), as the two are inextricably entangled. Fundamental to the Processualists are the issues of 'bounded rationality' (Cyert and March, 1963) and the micro-politics of organisations (Pettigrew, 1985). In

the acquisition literature these perspectives have tended to result in greater attention to the complexities of the post-acquisition phase, in particular, human issues, such as psychological difficulties, cultural differences, with some emphasis upon middle management rather than the top management of the Classical school.

A recent development within the Processual School has been to focus upon internal complexities as a source of organisational advantage. Now more formally described as the Resource Based View, there is a deliberate attempt to link internal capabilities and competencies with sustaining competitive advantage (Collis and Montgomery, 1995). This shift from a purely inward focus upon internal resources, towards linking them with an external advantage, is of considerable value in an acquisition context. Rather than just observing the problematic of acquisitions, in terms of their internal complexities and resistance to change, there is now a move to consider how the core competencies of acquisitions can sustain, or add to, the new organisation's competitive advantage. This may be achieved by widening the pool of core competencies available and perhaps allowing new complex assets to be constructed. This has implications for the way in which acquisitions are viewed, as they may increase the stock of unique resources (Grant 1991) and be opportunities to transfer resources between companies to create value (Haspeslagh and Jemison, 1991). The Resource Based View of the firm appears to have a great deal to offer in terms of identifying core competencies and core

capabilities which can be transferred or constructed between firms to build competitive advantage.

A revisionist perspective upon the Processualist approach suggests that by focusing upon process issues, we have a rather stunted model of strategy which 'omits the vital stage of action' (Eccles, 1993: 321). By becoming so immersed in the complexities of the organisation, it feels as though there is a paralysis or 'viscosity' in this view. This has led Eccles (1994) to question whether these complexities in implementation are more apparent than real. In other words, does implementation really needs to be so slow? 'Is (the organisation) prancing through waves or wading through treacle?' (Eccles, 1994: 15)

Putting this into context Whittington (1996) suggests a new direction of 'strategy as social practice'. He contrasts the large body of strategic management literature which deals with essentially directional or 'Classical' issues of 'where' strategies should go, with the notion of 'how' to get there, or the more 'implementational' view and sets these against organisational and managerial levels of concern. The resultant perspectives, shown below, show the gap of strategy as practice.

Figure 1.2: Four perspectives on strategic management

		Organisational	Managerial
Issue	Where	**Policy**	**Planning**
	How	**Process**	**Practice**

Source: Whittington (1996)

The Strategy as practice approach shifts concern from the core competence of the organisation to the manager as strategist. There are clear links here with the older planning school but rather than just the broad setting of strategic direction, attention here is shifted downwards to how managers actually 'do strategy' (Whittington, 1996). This involves not just inspiration but a goodly portion of perspiration, the 'nitty-gritty of tiresome and repetitive work' (Whittington, 1996).

The general trend in strategic management is towards strategic implementation issues. The Processual school is currently dominant in this area, and the focus is predominantly at the organisational level. However, there have been recent calls for more attention to be paid to action and move focus from the organisational level to the managerial.

The approach of this thesis is utterly consistent with prevailing trends in Strategic Management in focusing upon post-acquisition change. It fits within the Process school, by examining the changes that occur in newly acquired companies and adopts an organisational perspective. It differs from a Process approach by adopting a managing executive perspective, which is more commonly associated with a Classical view and, to an extent, heeds Eccles (1993, 1994) call for more attention to action, by seeking to identify post-acquisition changes.

1.7 Conclusion

This thesis recognises that pre-acquisition explanations for acquisition success have, to date, been rather un-satisfying. Whilst efforts continue to refine and explore pre-acquisition measures, there is substantial awareness that the post-acquisition phase has a powerful mitigating effect upon acquisition outcome. For this reason, the focus of this thesis is upon gaining a better understanding of the post-acquisition phase.

This orientation mirrors developments in Strategic Management, where the planning approach has been severely criticised and the processual view, which concentrates upon the internal complexities of organisations, has become dominant. By adopting an organisational perspective upon post-acquisition change this thesis is consistent with the process perspective.

The post-acquisition phase is important and complex. However, as reflected in a very fragmented literature (see Chapter two), it is poorly understood. This thesis will seek to improve our understanding of the post-acquisition phase by providing a systematic examination of post-acquisition management in the United Kingdom. In particular we are concerned to know what changes take place in acquired companies after acquisition and to examine whether there are significant and robust differences between post-acquisition styles in terms of the type, volume and timing of change. In addition we shall also seek to link changes and po t-acquisition styles with different managing executive types.

In the next chapter we shall review the extensive post-acquisition literature and observe that it lacks focus. However there is an important attempt at providing a unifying framework by Ha pe lagh and Jemison (1991). Despite significant limitations with their work, this thesis will seek to build upon their contribution by testing their typology and exploring ways in which it can be extended and improved in a UK context.

In Chapter three we shall justify our choice of a hybrid methodology, enabling both cross sectional survey work and in-depth key respondent interviews. This empirical data will then be applied to Haspeslagh and Jemison's (1991) framework in Chapter four to create the big picture of acquisition types in the UK and examine whether some acquisition types are more associated with success than others.

To determine whether there are significant differences between acquisition types, Chapter five will use functional change data from the survey to test the framework and key respondent interview material to provide a level of explanation for the changes made. In Chapter six we shall then explore the reasons behind the use of different types of post-acquisition style.

Chapter seven looks specifically at the different types of managing executive involved in taking charge of the post-acquisition phase. In terms of the amount and types of change that have taken place, we shall look for associations between managing executive type and different post-acquisition styles. In Chapter eight we shall introduce the issue of the timing of changes. We will examine patterns of change for each acquisition type and aim to draw together our earlier finding to provide an integrated view of post acquisition management.

The final chapter will conclude that for acquisitions in the UK, there are significant differences in post acquisition styles, in terms of nature and timing of change, and there are clear associations with different management types.

2. Key Issues in Post-Acquisition Management

2.1 Introduction

The previous chapter has shown that research attention is now being directed at the post-acquisition phase to help understand why many acquisitions fail to perform. In particular the issues of implementation and process are perceived to be of key significance (Jemison and Sitkin, 1986). These are explicitly recognised in the dominant framework, by Haspeslagh and Jemison (1991), in the post-acquisition literature. This contingency model for acquisition management represents an important advance over other typologies in our understanding of the acquisition process.

We will begin this chapter by revisiting briefly the post-acquisition typologies extant in the literature to illustrate the advance achieved by Haspeslagh and Jemison (1991). After a critical review of their contribution, we shall show that there are several aspects of their work that should be extended. In particular, Haspeslagh & Jemison's four integration styles have not been tested; they concentrate upon some integration styles at the expense of others on the implicit grounds that these styles are more successful; their processual orientation tends to focus upon the facilitators and inhibitors of change rather than the actual changes themselves; and they pay little attention to the timing of changes.

We shall address these limitations in the following order;

Section	Theme	Content
2.4	Distribution of acquisition activity and success	We will argue that their emphasis on certain integration styles is mis-placed both in terms of actual distribution of acquisition activity and its association with measures of success
2.5	Post-acquisition change	We will seek to build upon their work by examining actual changes and also use this as a way of testing their framework

2.6	Managing Executives and change	The importance of the Managing Executive has been ignored. We shall examine their association with post-acquisition change.
2.7	Timing of changes	We will extend their work by examining the timing of post-acquisition change.

It is in the area of specific changes that we hope to extend Haspeslagh and Jemison's (1991) work. To assist in our efforts to uncover changes for each integration type we will draw upon the post-acquisition literature. We recognise that this literature does not cover changes in a systematic or comprehensive way and indeed that these items are rarely tested. As this might lead to inaccuracies, we shall also draw upon related literature for further insights. In particular we will argue that acquisitions are analogous to turnarounds as they are both examples of organisations in crisis, intending to improve performance. On this basis the analogy is apposite and the turnaround literature can provide us with more sophisticated methods for looking at changes and suggest important avenues for further investigation in an acquisition context.

We shall also be referring to the "taking-charge" literature which focuses upon the role of the chief executive in assuming new positions. This perspective clearly resonates with both the acquisition and turnaround literature as in times of crisis the role of the chief executive becomes of great significance. The "taking-charge" literature adopts a different emphasis on the areas of change,

which can be added to the perspectives mentioned above, but its main contribution is in terms of looking at change over time. We shall adopt a model by Gabarro (1987) as a way of examining change over time in an acquisition context.

Firstly however we will begin by arguing for the importance of Haspeslagh and Jemison's (1991) contingency framework in the context of other acquisition typologies.

2.2 Acquisition typologies

There are a large number of acquisition typologies but there is no centrality or coherence to the approaches. Larsson (1990) suggests that acquisition typologies fall into two main groups. 'Combination' typologies categorise mergers and acquisitions according to their business relationship at the time of the combination. 'Integration process' typologies examine the integration after the legal combination (Larsson 1990: 204). To appreciate Haspeslagh & Jemison's (1991) contribution we will need to briefly review Larsson's (1990) 'combination' typologies before turning our attention to the post acquisition phase.

2.2.1 Combination typologies

Larsson's 'combination' typologies are largely based upon the most widely used classification from the FTC (Federal Trade Commission) which hinges upon whether the Markets or Products of the acquired company are the same or different (Ansoff 1965). Examples of such "strategic-fit" typologies include Kitching (1967), Salter and Weinhold (1981), Lubatkin (1983), Shelton (1988). Larsson (1990) has suggested a refined framework for these 'combination typologies', which specifically recognises vertical acquisitions. See Figure 2.1.

Figure 2.1 A systematic framework for the FTC typology of M & A

		Market Relation	
		Same	**Different**
	Same	Horizontal M & A	Market extension (Concentric technology) M & A
Production Relation	**Long-l'nked**	Vertical backward M & A**	Vertical forward M & A*
	Unrelated	Product extension (Concentric marketing) M & A	Conglomerate M & A

* from the perspective of the focal organisation

Source: Larsson (1990: 206) - derived from the text

As we observed in chapter one, linking these strategic combination typologies to performance has been difficult. As Larsson (1990: 44) comments, 'the variety of findings on M & A performance indicates that there are no automatic performance effects. There should be no doubt that the relationships between combinations and their performance are mediated by the integration process'. This poor link between strategic combinations has also been observed by Haspeslagh and Farquhar (1994: 436) who found that their '*a priori* categories of horizontal, related and unrelated acquisitions could not be associated with different levels of performance'. Larsson points to the organisational M & A literature as the mediator or 'Samson between the pillars of combination motives and performance' (Larsson, 1990: 45).

Porter (1987) has developed our understanding of different strategies for acquisitions by suggesting ways in which value may be added. These four concepts of strategy - portfolio management, restructuring, transferring skills and sharing practices, suggest different approaches to the way in which acquisitions should be handled to create shareholder value. Although this takes us forwards in terms of linking post-acquisition organisational combination with hypothesised performance outcome, Porter (1987) does not relate these combination types to pre-acquisition typologies[1] , and as noted previously (1-12) may have a flawed outcome variable which means the performance link can only be suggested. Nevertheless, this typology suggests that researchers can

[1] Porter (1987) just focuses upon whether acquisitions were related or un-related.

look beyond the product / market fit towards a more capabilities based view on how value may be created.

2.2.2 Integration process typologies

The integration process typologies have generated a rich set of descriptive labels for organisational fit such as 'pillage and plunder, one night stand, courtship/just good friends, love and marriage' (Siehl and Smith, 1990). Most have concentrated upon human resource implications of acquisitions[2] (Buono and Bowditch, 1989, Napier, 1989). However, as Larsson (1990) observes, whilst they condense the rich variety of integration issues into a few relatively powerful dimensions; degree of integration, manner timing, reactions, symmetry, 'the inconsistent use of dimension, confusing labels and lack of mutual exclusiveness and exhaustiveness have compromised the classificatory schemes to the extent that they hardly can be deemed as adequate systematisations of integration processes' (Larsson, 1990: 250).

[2] There has been a recent study looking at changes in the value chain (Schweiger, Csiszar and Napier, 1994).

2.2.3 Acquisition process typologies

The acquisition typologies described above have tended to concentrate upon the issues of strategic fit or organisational fit. There have been some notional attempts at linking the FTC classification to post-acquisition integration issues but these have been largely descriptive in nature and not very successful (Siehl, Ledford, Silverman and Fay, 1988).

Porter's (1987) contribution has been to move the debate towards examining how value is created. Haspeslagh and Jemison (1991) have followed in these steps by specifically marrying strategic needs with the post-acquisition issues of organisational fit through a process approach. Although this appears to be a successful attempt to unify the issues of pre-acquisition strategic fit with post-acquisition organisational fit, the achievement is perhaps a little more focused. By concentrating upon strategic needs rather than the issue of strategic fit, they move the debate away from applying the FTC classification towards the issue of which synergies are to be realised. These areas of benefit are clearly associated with pre-acquisition strategy and from this point of view they have succeeded in producing an over-arching framework.

However it should be noted that this does not take us as far as a clear association of acquisition management style with strategic fit typologies. Although they pay lip service to the FTC classification with a simplified version of their own, characterised as domain strengthening, domain extension and domain

exploration, distinctions in the FTC classification become blurred in their own typology of acquisition management. Table 2.1 tries to show this difficulty.

Table 2. 1 Haspeslagh and Jemison domains versus FTC categories

Domains	Horizontal	Market extension	Product extension	Conglomerate
Strengthening	✓	✓	✓	
Extension		✓	✓	
Exploration				✓

Haspeslagh and Jemison (1991) concentrate upon the notion of interdependence rather than strategic notions of relatedness and this makes it impossible to specifically relate their integration styles to a strategic fit typology. Their attention to core capabilities cuts across the FTC classification so that, for example, domain strengthening can be portrayed as a horizontal, market extension or product extension acquisition.

However there are two areas where there appears to be a clear association between their typology and the FTC classification, namely domain exploration with conglomerate acquisition and domain strengthening with horizontal acquisition.

2.3 Haspeslagh and Jemison's contingency framework

Haspeslagh and Jemison's book, Managing Acquisitions (1991), is currently the dominant work in the area. It integrates the observations that the acquisition process itself is a potentially important determinant of acquisition outcome (Jemison and Sitkin, 1986) with a contingency view that matches strategic needs to organisational task requirements (Haspeslagh and Farquhar, 1987).

The acquisition framework rests upon three main dimensions:

i. the vital significance of strategic capability transfer, a concept from the Resource-based theory of the firm,

ii. the key role of autonomy, a major issue drawn from organisational fit literature,

iii. the issue of process in terms of the facilitators and impediments to change - a perspective from the Processualist school.

Haspeslagh and Jemison (1991) show these dimensions as two orthogonal axes: strategic interdependence reflecting capability transfer, and level of autonomy. The process perspective is represented by level of 'need'. Their framework is shown in figure 2.2.

Figure 2.2: Types of Acquisition Integration Approaches

		Need for organisational autonomy	
		Low	High
Need for strategic Interdependence	Low	[Holding]	Preservation
	High	Absorption	Symbiotic

Source: Haspeslagh and Jemison (1991: 145)

Before we examine the four acquisition styles that result, we will look at the underlying dimensions in more detail.

2.3.1 Capability transfer

Capability transfer is the concept underlying the 'strategic interdependence' label applied by Haspeslagh and Jemison (1991) to the vertical axis of their integration framework. They state that the nature of strategic interdependence depends upon how value will be created. The mechanism by which value is created is capability transfer (Haspeslagh and Jemison, 1991: 139-140).

This concept of capability transfer was anticipated by Porter (1987), describing the transfer of skills as a way of creating value in acquisitions, and is drawn directly from the Resource-Based View of the firm which suggests that companies have unique and embedded configurations of assets which are its distinctive competence (Grant 1991). Acquisitions may serve to renew, enhance or create such complex assets and the value so created may indeed justify the acquisition premiums paid. Various labels have been applied to these unique resources such as core-competencies (Prahalad and Hamel, 1989, 1990) and capabilities (Stalk, Evans and Shulman, 1992). The concept of resources however has 'remained rather amorphous and rarely operationally defined or tested' (Miller and Shamsie, 1996). We shall return to the issue of what capability transfer consists in section 2.4.1.

2.3.2 Autonomy

'Organisational autonomy need' is the label applied by Haspeslagh and Jemison (1991) to the horizontal axis of their integration framework.

Autonomy is a key concept in the organisational fit literature which has tended to examine issues of cultural fit and boundary permeability (Hayes and Hoag, 1974, Manzini and Gridley, 1986, Buono and Bowditch, 1989, Siehl and Smith, 1990, Datta, Grant and Rajagopalan, 1991). A company's culture is closely

associated with autonomy so that if autonomy is weakened, then the company's culture is perceived to be under threat. Where acquirers adopt the 'conquering army' approach, the loss of autonomy can be devastating from the perspective of acquired firm executives; it can result in reduced commitment and motivation and in the extreme, anger, resentment and hostility (Buono and Bowditch, 1989). This culture clash can be very disruptive and indeed destroy the rationale behind the original take-over. Walter (1985) suggests that cultural disturbances in mergers and acquisitions can cost as much as 25% - 30% in lost performance.

The level of autonomy is therefore a crucial factor in post-acquisition management. However there is a paradox in that autonomy is vital for the preservation of strategic capability but the pursuit of capability transfer may destroy the competence of the acquired company[3].

2.3.3 Process

Haspeslagh and Jemison are clear that each of their axes reflects a 'need'. This is based on the assessment of integration setting, the planned integration approach after acquisition and the actual integration at the time of their research (Haspeslagh and Jemison, 1991: 164 - 165). In their eyes 'in all high performing acquisitions, there was high degree of consistency between these assessments'

[3] Haspeslagh and Jemison (1991: 142) give as an example the build up to 'Big Bang' in 1986 where many key employees left acquired firms as value had been destroyed for them.

and 'in acquisitions with poor performance, these assessments were inconsistent' (Haspeslagh and Jemison, 1991: 165, Haspeslagh and Farquhar, 1994). In other words 'the need' in the best acquisitions is constant rather than changing[4]. On this basis we may conclude that the acquisition categories are reasonably robust[5].

Angwin and Wensley (1996) have also interviewed executives on their consistency of approach in the post-acquisition period and have shown that acquisitions are remarkably robust in terms of their perception of the transfer of resources. However autonomy is a difficult dimension for executives to control.

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[4]There is the question that if there is consistency between acquirer's assessments throughout the process, then we would expect a far better performance from the strategic management school unless the advantage of Haspeslagh and Jemison's framework is the explicit adoption of organisational fit issues. We might also review Haspeslagh and Jemison's method which suggests that although interviews were conducted at different stages in the acquisition process, they reflected acquisitions which were between 2 and 15 years old with one exception where one year had elapsed (see: Haspeslagh and Jemison, 1991: 278). On this basis one could argue that they are really only arguing for consistency of approach well after the acquisition has taken place and there must be an element of the interviewee making sense of the past. Whilst they also made use of pre-acquisition documents as comparators, we would question how useful this is as the information in such documents is largely strategic whereas the concerns post-acquisition tend to be operational (Hrebiniak and Joyce, 1984). There is little detail on this issue although their main argument is for consistency of approach throughout the process.

[5] There has been one study which suggests that acquisitions do move between boxes. Baden-Fuller and Boschetti (1996: 93) suggest that the, albeit flexible and dynamic, determination of categories as alternatives can in fact be seen as part of a continuum, 'a clear time path that firms are likely to follow', moving in a sequence from Preservation to Absorption to Symbiosis.

Haspeslagh and Jemison (1991) bring together the issues of capability transfer (as indicative of strategic interdependence) autonomy and need in their acquisition integration framework. The result is the creation of four distinct types of acquisition integration approach. These are described below.

2.3.4 Acquisition types

Haspeslagh and Jemison's (1991) framework, shown in figure 2.2, results in four types of acquisition which they label as Preservation, Absorption, Symbiotic and Holding.

Preservation acquisitions have a high organisational autonomy need and a low density of interdependence. These acquisitions are managed at arm's length as the concern is to 'preserve' the core capabilities of the acquired firm. Parental incursions will be minimal with only finance risk sharing or perhaps some general management systems implementation.

Absorption acquisitions have a high need for strategic interdependence and a low need for autonomy. The objective here is for a full consolidation that dissolves the boundary between the two companies. 'The strategic task should be pursued without consideration for cultural preservation beyond that of clear communications to ease transition' (Haspeslagh and Farquhar, 1994: 432-433). The acquiring company needs the courage of its convictions to impose change.

Symbiotic acquisitions require high autonomy and have a high need for strategic interdependence. The aim is for each firm to take on the qualities of the other by moving from co-existence to interdependence. 'There is an inherent tension between boundary maintenance and effective strategic capability transfer' (Haspeslagh and Farquhar, 1994: 433). Managerial skills are seen as vital in allowing iterative adjustments to take place.

Holding acquisitions have a low autonomy need and a low need for strategic interdependence. These companies are examples of value capture and are held in a trading sense. Haspeslagh and Farquahar (1994) and Haspeslagh and Jemison (1991) record no examples of Holding acquisitions.

2.4 Distribution of acquisition activity and success

2.4.1 Distribution of acquisition types in the UK

Haspeslagh and Jemison (1991) have put forward a comprehensive typology of acquisition integration. However they studied just seven acquisitions among twelve firms (Haspeslagh and Jemison, 1991: 275) which they admit is inappropriate for representing a population (Haspeslagh and Jemison, 1991 Appendix A, Note 1: 367). As a consequence it is not possible from their work to know to what extent their theory is representative of acquisition activity in general. In addition five of their firms are located in the US and two in Japan

which does not engender confidence in the representativeness of their styles for a particular country. Furthermore these acquisitions were thinly spread across six industry sectors (Haspeslagh and Jemison, 1991 Appendix A: 275).

In particular Haspeslagh and Jemison (1991) concentrate upon strategic acquisitions; 'the firms had to represent strategic capability transfer in related business acquisitions' (Haspeslagh and Jemison, 1991 Appendix A: 274). 'Situations were chosen where the avowed purpose of the acquisition in public documents was the transfer of capabilities between firms' (Haspeslagh and Jemison, 1991 Appendix A: 274). The underlying rationale for this position harks back to the Resource-Based View, that value creation is only brought about by capabilities transfer; the sample firms made acquisitions 'in hopes of gaining a competitive advantage' (Haspeslagh and Jemison, 1991 Appendix A: 274). For acquisition premiums to be realised firms need to transfer resources to create value. Haspeslagh and Jemison (1991) therefore concentrate upon the acquisition types where there is capabilities transfer, namely Absorption and Symbiotic acquisitions. They do recognise that Preservation acquisitions exist although they clearly believe that over time these will begin to show the characteristics of Symbiotic acquisitions; 'the repertoire involved in successful preservation.... is key in the early stages of many other acquisitions' (Haspeslagh and Jemison, 1991: 221).

It is noticeable that although they posit the existence of Holding acquisitions they did not encounter any such acquisitions in their work. Their explanation is that they were looking specifically at strategic acquirers where there would be a transfer of capabilities between firms during integration (Haspeslagh and Jemison, 1991, Appendix A: 274 - 5). They also find it difficult to explain the reason why Holding acquisitions may exist. Their framework suggests little or no resource transfer, value is captured rather than created and there is little autonomy so that the core capabilities of the acquired firm are unlikely to remain. Their only suggestions are that such companies may be traded (Haspeslagh and Jemison, 1991: 147). This seems rather curious as one would expect the parent company of an acquisition being 'held' for trading, to wish to preserve the acquisition's core capabilities rather than undermine them. This raises questions over the validity of this category.

Haspeslagh and Jemison's (1991) strong emphasis upon the importance of value creation through capabilities transfer leads us to expect that most acquisitions would be Absorption or Symbiotic types. Their recognition of the existence of Preservation acquisitions, where the transfer of resources is limited and value is captured rather than created, suggests that there will be examples of this type although perhaps to a lesser extent than the other integration types.

As mentioned in section 2.2.3, Haspeslagh and Jemison have not characterised their typology in terms of relatedness or unrelatedness. However, in their

discussion of autonomy they concede that some acquisitions are made precisely because the firms are different from the parent (Haspeslagh and Jemison, 1991: 143) and would describe these firms as being examples of 'domain exploration' (Haspeslagh and Jemison, 1991: 154). Such acquisitions are likely to be unrelated and would require considerable autonomy. This observation is supported by Datta and Grant (1990) who have related the concept of autonomy to type of acquisition. In their study of 129 acquisitions during 1980 - 1984 in the US manufacturing sector, they concluded that acquiring firms give greater autonomy to unrelated acquisitions than related acquisitions. This result was significant at the 1% level[6]. We would also expect to find that there is less capability transfer where the acquired company is unrelated as this would be necessary to preserve the acquired company's core competencies. On this basis we would expect to find a preponderance of unrelated acquisitions categorised as Preservation acquisitions.

This observation is important as unrelated acquisitions have been shown to be a sizeable percentage of total acquisition activity. In Datta and Grant's (1990) study, 54% were related acquisitions and 46% were unrelated[7]. Other studies ascribe a similar importance to unrelated acquisitions: Kitching (1967: 43) shows 45%, and Hughes (1993: 27) draws upon the Office of Fair Trading

[6] They also found a negative relationship between autonomy and related acquisitions but the result was not significant.

[7] Relatedness was measured along multiple manufacturing R & D and marketing activities. The activities were drawn from Howell (1970) and Salter and Weinhold (1979) and the scales had high reliability (Cronbach-α values of 0.900 and 0.973)

reports to suggest that diversifying mergers have increased in importance in the UK from 23% of numbers and 27% of assets in 1970 to 37% of numbers and 53% of assets in 1989. On this basis we might venture that rather than being a minor part of acquisition activity, there are likely to be significant numbers of Preservation acquisitions.

Proposition[8] 1.: Compared with Haspeslagh and Jemison's Absorption and Symbiotic integration styles, Preservation Acquisitions will account for a significant number of acquisitions in the UK.

Haspeslagh and Jemison (1991) did not find any Holding acquisitions and suggest this acquisition type is unimportant. We believe however, that Haspeslagh and Jemison (1991) under-represent the importance of Holding acquisitions. If we accept their explanation, that Holding acquisitions are companies being held for trading, then it is well known that there are many conglomerate style acquisitions, by historically avid acquirers such as Hanson plc and BTR plc, where the autonomy of the acquired company is often greatly reduced without substantial resource transfer. The logic behind many of these take-overs is that the acquired company is under-performing and that greater

[8] Propositions have been used rather than hypotheses as they are more general in nature (cf. Grinyer and McKiernan, 1990) and demand less rigour.

accountability through more stringent financial reporting can greatly improve performance. We could extend this argument to suggest that turnaround situations may well fall into the Holding category. The low autonomy would correspond with the imposition of stricter controls from the new parent whilst low resource transfer may well be an unwillingness to commit resources to a faltering business, or risk contamination of the acquirer. The attraction of such acquisitions to acquirers is the potential for very substantial gain. We therefore cannot accept Haspeslagh and Jemison's neglect of Holding acquisitions and feel their focus upon the transfer of strategic capabilities has caused them to overlook this category.

Proposition 2.:	Compared with Haspeslagh and Jemison's Absorption, Symbiotic and Preservation styles, Holding Acquisitions will represent a significant portion of take-over activity in the UK.

2.4.1.1 Summary

In broad terms we are arguing that Haspeslagh and Jemison (1991) are understating the importance of value capture acquisitions in their effort to make a case for the significance of value creation acquisitions. Whilst this has been

theoretically driven, the case has not been empirically verified on the basis of actual acquisition activity. The following section examines the further assumption that value creating acquisitions will necessarily be positively associated with post-acquisition performance.

2.4.2 Acquisition integration types and success

Chapter one has shown that despite sophisticated techniques, attempts to ascribe success to different acquisition types based upon pre-acquisition factors have been largely unsuccessful. With regard to post-acquisition studies, the vast majority have tended to focus upon human resource issues, in particular the negative aspects, and rely upon the implicit assumption that upheavals are bad. However despite the vivid portrayals of sackings, strikes and even sabotage, there is a paucity of empirical studies relating post-acquisition management to measures of success. Those that do exist do not adopt a typology of post-acquisition management but instead adopt a thematic approach. For instance Datta's (1991) study examines issues in organisational fit and finds that differences in top management style correlate with performance. Chatterjee, Lubatkin, Schweiger and Weber (1992) examine the relationship between perceptions of cultural differences and shareholder gains to find that the relationship is negative. Datta and Puia (1995) also examine cultural fit and shareholder value for cross-border acquisitions and also find cultural distance associated with negative returns.

One of the few studies which explicitly seeks to address pre- and post-acquisition factors is the previously cited study by Datta and Grant (1990). Their results show that the autonomy of unrelated acquisitions is positively associated with success but they could not find significant results for related acquisitions.

There is clearly room for more work in terms of relating pre- and post-acquisition factors with issues of success and in particular being more sensitive to different post-acquisition integration styles.

2.4.2.1 Haspeslagh and Jemison's contingency framework and success

Haspeslagh and Jemison (1991) have provided us with a stepping stone with their contingency framework. Although they have not tested their model of four distinct types of acquisition integration, they strongly suggest that successful acquisitions are those which create value. 'The true measure of success is the notion of creating value through acquisition rather than capturing it' (Haspeslagh and Jemison, 1991). Central to this argument is that value is created by capability transfer. However as noted above, autonomy clearly has a relationship with success and this factor may moderate the effect of capability transfer.

2.4.2.2 Capability transfer and success

Following Haspeslagh and Jemison's (1991) view, that creating value is achieved by capability transfer, we can infer that those acquisition types which experience capability transfer are likely to be more successful than those which are based upon value capture. On this basis we would expect Absorption and Symbiotic acquisitions to be more successful than Preservation and Holding acquisitions.

However we should be cautious about assuming that capability transfer will automatically lead to success. We might suggest that the transfer of capabilities may indeed offer the pro pect of creating value but, as Haspeslagh and Jemison (1991) observe, thi can also destroy capabilities as there is an associated increase in the complexity of task which will give rise to additional managerial costs. These additional costs might well out-weigh the benefits of value creation.

Apart from the benefits of capability transfer being more difficult to realise than expected, there is also the case that acquisitions which experience low capability transfer may in fact be perceived to be successful. In a study of 21 successful acquirers who made a total of 829 acquisitions, Anslinger and Copeland (1996) argue for the success of non-synergistic deals. Their study found 'sustained

returns of 18% to 35% per year'[9] (Anslinger and Copeland, 1996: 126). In consequence they advocate an arms length approach by financial management of the acquired company and a carrot and stick approach for the incumbent chief executive.

The difficulties experienced by researchers in ascribing success to acquisition type, whether it is based upon pre- or post-acquisition characteristics or a combination of the two, should make us wary of a simple relationship between capability transfer and success. The issue of success may therefore be more complex than just capability transfer.

Proposition 3.:	Absorption and Symbiotic acquisitions will not be perceived to be significantly more successful than acquisitions experiencing low capability transfer.

2.4.2.3 Knowledge transfer and success

Whilst we have suggested above that the issue of capability transfer and success may be more complex than Haspeslagh and Jemison (1991) infer, it is

[9] Their sample was split between financial acquirers, who exhibited the higher returns, and public corporations with lower returns. The public corporations returns averaged 18% in the US (S & P 500 was 14.3%) and in the UK averaged 11% (MSCI index 5.4%)

reasonable to consider that some capability transfers may have a stronger association with success than others. At the moment, the Resource-Based school is emphasising the importance of knowledge as a key resource. 'The process by which knowledge is created and utilised in organisations may be the key inimical resource'(Schendel, 1996: 3).

Following on from Drucker's (1993: 6) observation that knowledge is the only meaningful resource today - 'knowledge has become ***the*** resource, not ***a*** resource' - other authors have amplified the importance of knowledge in achieving competitive advantage. Nonaka and Takeuchi (1995) use an explicit treatment of knowledge in an uncertain and volatile world to explain the rise of Japanese industry to world dominance. This link between the importance of knowledge and volatile environments has been supported by Miller and Shamsie's (1996) study of Hollywood film studios from 1936 to 1965. They observe that in more uncertain, changing environments, knowledge-based resources boost financial performance.

Hamel and Prahalad (1994) argue for the importance of leveraging core resources, in particular knowledge and learning. They believe practices such as benchmarking are just playing catch up: 'One doesn't get to the future first by letting someone else blaze the trail' (Hamel and Prahalad 1994: 22). They believe companies have to create the future and it is through knowledge and learning that companies will be successful. This is supported by Hamel's

(1990) work on strategic alliances, where the motivation was not just to gain access to skills but actually to internalise them (Hamel, 1990: 84). Failure to 'out-learn' one's partner could render a firm first dependent and then redundant within the partnership and competitively vulnerable outside it (Hamel and Prahalad, 1989). This 'hollowed-out' fear may have been present at Rover during its alliance with Honda.

Nonaka and Takeuchi (1995: 11) argue that knowledge is not just learnt or like the 'best practice, benchmarking practices prevalent in the US, described by Milliken as SIS, or 'steal ideas shamelessly'', but is built and requires laborious interactions among members. Although they were referring to inter-company learning, of 'developing ways to harness the "wisdom of the anthill" (Hamel and Prahalad, 1989: 75), Hedlund (1994) has identified four levels of carrier; individual; group; organisational; inter-organisational. In addition he 'dynamizes' the issue of knowledge transfer; 'Much of the literature speaks primarily of *storage* of information, and only secondarily about its transfer' (Hedlund, 1994: 76). Hedlund (1994) seizes upon the important distinction made by Nonaka and Takeuchi (1995) of tacit and explicit knowledge and whilst associating Japanese corporate success with the use of tacit knowledge and its transfer at all four levels of carrier, points out that Western organisations have a much more tightly specified and articulated system of knowledge and are to a large extent 'articulation machines' built around explicit, codified practices (Hedlund, 1994). Western organisations only recognise explicit knowledge and

lack the mechanism for the important use and transfer of tacit knowledge. Their strength is 'the allowance of radical novelty', and expertise in handling mergers and acquisitions allow quantum jumps in the reservoir of capabilities' (Hedlund, 1994: 79). The Western system specialises in radical innovation, and large firms are the instruments more of exploiting such innovations than of generating them (Hedlund, 1994: 78). In essence then the Western approach is to acquire competencies and innovations rather than build them internally.

Spender and Grant (1997) have focused upon the issue of knowledge transfer. 'If knowledge is the primary resource upon which competitive advantage is founded, then its transferability determines the period over which its possessor can earn rents from it' (Spender and Grant, 1997: 7). In an acquisition context the transfer of knowledge is particularly relevant. Almeida's (1996) analysis of patent citations relating to patent innovations in the semi-conductor industry shows that foreign direct investment is used as a means of accessing technical knowledge in overseas countries rather than as a vehicle to exploit firm specific knowledge developed in their home base. Whilst acknowledging that patent citations are just one manifestation of knowledge within a firm, this raises the question of the ease with which knowledge is transferable within the firm. Szulanski (1996: 37) examined 122 best-practice transfers in eight companies and concluded that internal stickiness of transfer is due to the recipient's lack of absorptive capacity, causal ambiguity and the arduousness of the relationship between source and recipient. She raises the puzzle that whilst best practices are

'recommended by superior and emulated by peers, those practices do not spread inside firms' (Szulanski, 1996: 38) and indeed cites Porter (1985: 352) 'the mere hope that one business unit might learn something useful from another is frequently a hope not realised'. This difficulty of transferring knowledge within a company can only be greater in an acquisition situation and impede attempts at value creation.

Another context where one would expect explicit attempts to transfer knowledge between firms is that of strategic alliances. However Mowery, Oxley and Silverman (1996: 89) comment that 'the effects of alliance activity has proceeded in a virtual empirical vacuum'. They seek to redress this by tracking the effects of alliance activity on inter-firm knowledge transfer for 792 strategic alliances. Mowery, Oxley and Silverman (1996: 83) focus upon cross-citation rates for partners in bilateral alliances and acknowledge that this is codified knowledge rather than tacit knowledge, the flow of which they assume is closely linked. They conclude that 'there is no consistently positive pattern of inter-firm learning in our overall alliance sample' (Mowery, Oxley and Silverman, 1996: 87). They then identify convergent and divergent sub-sets of alliances and for the latter suggest that some alliances are vehicles for accessing rather than acquiring capabilities.

Whilst the forgoing discussion has clearly suggested that knowledge is the firm's key competitive advantage there is a general awareness that the greatest

value lies in tacit rather than explicit knowledge which the Western firm is poorly equipped to handle. To compensate for this, Western firms have a predilection for acquiring reservoirs of capabilities. However this does not overcome the critical issue of knowledge transfer within the firm and between firms. This is clearly far more problematic than hitherto realised. We might suggest therefore that whilst knowledge is perceived to be the source of competitive advantage, its transfer is far from automatic and indeed may be very problematical. On this basis whilst we anticipate knowledge transfer to be associated with perceptions of success, we should bear in mind that respondents are undoubtedly commenting upon the transfer of explicit knowledge. In addition, based upon the difficulties noted above, we should not be surprised if fewer firms than expected experience high levels of knowledge transfer.

Proposition 4.: Knowledge transfer will be associated with perceptions of acquisition success

2.4.2.4 The mitigating effect of autonomy

Datta and Grant's (1990) study referred to above shows that the autonomy of unrelated acquisitions is positively associated with success. Although they could not find a similar association between related acquisitions, autonomy and

acquisition performance, there is clearly evidence that autonomy can influence success.

The importance of organisational autonomy is implicit in the organisational fit literature, mentioned in section 2.3.2, where loss of autonomy is perceived as being of devastating consequence to the acquired company with the implication that in such circumstances the health of the acquisition will suffer. Haspeslagh and Jemison (1991: 142) are mindful of the importance of autonomy which they see as essential to preserving the capabilities of the acquired company. However, to transfer capabilities causes this autonomy to be threatened. 'The pursuit of interdependence benefits frequently impairs or destroys their very source' (Haspeslagh and Farquhar, 1994: 430). There is then an inherent conflict between transferring resources and preserving organisational autonomy in the acquired company (Haspeslagh and Jemison, 1991, Appendix A: 287).

On this basis we might be able to suggest that Haspeslagh and Jemison's (1991) acquisition types form a hierarchy in terms of success. Symbiotic acquisitions should be the most successful as they experience high resource transfer, which is necessary for value creation, and high autonomy, which means minimum disruption. Absorption acquisitions will come next with high resource transfer allowing value creation but with low autonomy which may lead to disruption in the acquired company and a potential deterioration in performance. Preservation acquisitions will follow with low resource transfer presenting little opportunity

to create value, but with high autonomy permitting a continuation of performance levels. Finally there are Holding acquisitions which should be the least successful as they experience low resource transfer permitting little opportunity for value creation and also low autonomy which can lead to a deterioration in the acquired company's performance.

Proposition 5.:	There will be an order to Haspeslagh and Jemison's acquisition types, in terms of perceived success, from Symbiotic as most successful, through Absorption, Preservation to Holding.

2.4.3 Review of acquisition activity and success

This section has identified two major limitations in Haspeslagh and Jemison's work. The first is that they have chosen to concentrate upon one type of acquisition whilst suggesting a comprehensive typology. The second underlies their decision to concentrate upon value creating acquisitions, which is their assumption that such acquisitions are more successful than value capture ones. To address these two issues, propositions one and two are targeted at the actual distribution of acquisition activity in the UK, whilst propositions three to five

examine the argument that certain types of acquisition are more successful than others. The results for these propositions are contained in Chapter four.

2.5 Post-acquisition change

This section takes us beyond the broad picture of the distribution and success of acquisition types, into the realm of post-acquisition change. We begin with a general view of the levels of change associated with the axes of Haspeslagh and Jemison's (1991), namely autonomy and resource transfer. From this we look to see whether we can identify a hierarchy of change amongst the four acquisition types.

We then observe that Haspeslagh and Jemison (1991) have chosen to focus upon the process of change, in just three of their acquisition types, rather than the changes themselves. For further guidance on the sorts of change we might find in the post-acquisition phase of all of their acquisition styles we turn to the post-acquisition literature. However this is rather disappointing as it is neither comprehensive nor coherent. We therefore generate a number of propositions derived from this fragmented post-acquisition literature and then later group these around the larger theme of this section.

For further insight into the sorts of changes we might find in the post-acquisition phase of the four acquisition types, we then refer to the turnaround literature which has many important parallels with managing acquisitions.

2.5.1 Capabilities transfer and aggregate change

The Resource-based school has seen few attempts to derive resource categorisation schemes for the complex resources which confer unique competitive advantage. Barney (1991) suggested groupings of physical, human and capital resources to which Grant (1991) added technological and reputational resources. Leonard-Barton (1992) has added to these items in her work on managing new product development and R & D, by observing that a core capability is an interrelated interdependent knowledge system bound together by values and norms. Complex assets therefore are not just clusters of tangible assets but also the managerial processes needed in their creation, a 'dynamic wealth creating aspect of managerial activity' (Baden-Fuller and Boschetti, 1996: 95). These items are evident within Haspeslagh and Jemison's own categorisation described below.

2.5.1.1 Haspeslagh and Jemison's capability transfer criteria

Haspeslagh and Jemison (1991) developed their own capability transfer criteria out of their earlier work in Haspeslagh (1986) and Haspeslagh and Jemison

(1987). This was in preference to existing categorisations as they believed that the organisation theory literature did not take both inter- and intra-dependence into account; a feature which they saw as unique to acquisitions (Haspeslagh and Jemison (1991, Appendix A, Note 8: 368).

Their capability transfer axis consists of four items; operational resource sharing, transfer of functional skills, general management skills transfer and combination benefits. The first three actually involve strategic capability transfer and the fourth, combination benefits refers to a number of advantages, such as increased purchasing power, that may be present but do not require capability transfer (Haspeslagh and Jemison, 1991: 28 - 29)

In some ways the inclusion of the fourth category is rather surprising as Haspeslagh and Jemison are looking at capability transfer and the managerial implications of this. As they themselves state: 'Combination benefits have one aspect in common - they do not require a managerial process to transfer capabilities between the organisations. While they play a major role in some acquisitions, combination benefits are not at the heart of value creation in truly strategic acquisitions. It is in the three categories of resource sharing and the transfer of functional and general management skills that capability transfer takes place in value creating acquisitions' (Haspeslagh and Jemison, 1991: 29).

Haspeslagh and Jemison (1991) point out that the transfer of capabilities disturbs the acquired company and if not carefully managed can have very

deleterious results. We would therefore expect resource transfer, the vertical axis of their framework, to be positively associated with the volume of change experienced by the acquired company.

Level of autonomy, the horizontal axis of Haspeslagh and Jemison's (1991) framework, has long been associated with change in the organisational fit literature. We would expect acquisitions with a high level of autonomy to experience little change whereas those with low autonomy would suffer the reverse. As we have seen, Datta and Grant's (1990) study offers some explanation by observing that unrelated acquisitions experience greater autonomy than related acquisitions and it is likely that a parent company is less likely to change an unfamiliar business than a familiar one.

Based upon the above and inferring from Haspeslagh and Jemison's (1991) text, we can suggest that the level of aggregate change experienced by acquisition type will run from Preservation acquisitions, with the lowest level of change, through Holding, Symbiotic and finally Absorption acquisitions with the highest level of change.

Proposition 6.:	The level of aggregate change will increase from Preservation acquisitions, through Holding, Symbiotic to Absorption acquisitions.

2.5.2 Changes by Haspeslagh and Jemison (1991) acquisition type

Haspeslagh and Jemison (1991) do not provide us with a great deal of information regarding actual acquisition integration changes. However they do suggest that there are some changes which are generic and occur at the outset of the post-acquisition phase. 'Every acquisition, after the agreement, involves a transition period before the actual integration of the two companies begins. We call this period the stage setting phase' (Haspeslagh and Jemison, 1991: 169). We will review the changes they suggest for the stage setting phase and then look at changes specific to each integration type.

2.5.2.1 The stage setting phase

Haspeslagh and Jemison (1991: 173) suggest that successful acquirers pursue seven key tasks. We have set these task recommendations against the changes suggested in Haspeslagh and Jemison's (1991: 169 - 188) text.

Table 2.2 Key tasks and changes in the stage setting stage

Key tasks	Actual changes mentioned
1. Establishing interface management	Set up gatekeeping structure
2. Putting operations on an even keel	Provide performance targets
3. Instilling a new sense of purpose	A mission statement
4. Taking stock and establishing control	Introduce parent corporate control system
5. Strengthening the acquired organisation	Improve staffing
6. Developing mutual understanding	A communication programme
7. Building credibility up and down	

Whilst Haspeslagh and Jemison's (1991) text is full of recommendations for each of the seven task areas identified above, we can see that there are very few suggestions as to the actual changes which might be made to acquisitions. In keeping with their Processualist viewpoint, there is a much greater sense of what is necessary to facilitate change rather than actually what the change is. There is considerable emphasis for instance upon the importance of communications at all levels but few clues as to what should be communicated. Another example is the establishing of interface management either to protect a Preservation acquisition or to implement an absorption process. Whilst this clearly impacts upon the amount of change in the acquired company, it does not suggest what changes that interface management will make.

2.5.2.2 Changes by acquisition type

The following reviews Haspeslagh and Jemison's (1991) integration types and highlights the changes they mention. After this review we will seek to develop this enquiry further by drawing upon further suggestions from the post-acquisition and related literature.

1) Absorption acquisitions

'Absorption is the integration approach that most naturally comes to mind for managers - two firms truly consolidating' (Haspeslagh and Jemison, 1991: 189).

Haspeslagh and Jemison (1991) suggest that this form of integration is most appropriate when the benefits from the acquisition come from a high interdependence between the firms and there is a low concern for the autonomy of the acquired firm. In their view, this is 'probably the most prevalent form of integration' (Haspeslagh and Jemison, 1991: 189). To illustrate this type of integration they cite the example of Electrolux's acquisition of Zanussi.

Haspeslagh and Jemison (1991: 189 - 208) characterise successful Absorption acquisitions as carrying out four tasks: i) drawing up a blueprint for consolidation ii) managing the rationalisation iii) moving to best practice iv) harnessing the complementarity between the two firms. The main changes are identified overleaf

Table 2.3 Changes in Absorption acquisitions

Change issue	**Absorption Acquisitions**
i. Choose a leader	✓
ii. Choose management team	✓
iii. Communicate	✓
iv. Set up task forces	✓
v. Rationalise	✓
vi. Reduce costs	✓
vii. Develop differences Invest	✓
viii. Lose identity	✓

2) Preservation acquisitions

Preservation acquisitions are often of the domain exploration type which begin as small, platform acquisitions. Haspeslagh and Jemison (1991) use the example of BP Nutrition's acquisition of Hendrix to illustrate the Preservation approach. This was characterised in the comments of the head of BP Nutrition as follows. 'Hendrix's external board members always urge us to break the shell of acquired companies and integrate them into the existing business structure. But we saw that breaking that shell is too risky in terms of dampening the motivation of their managers and undermining their reasons for success' (Haspeslagh and Jemison 1991: 217)

Haspeslagh and Jemison (1991: 209 - 211) identified four main tasks for these acquisitions. i) establishing a gate-keeping role to protect the acquired company's boundary ii) nurturing the acquired company, in terms of resources and management skills, to allow accelerated development iii) the parent company should accumulate learning about the new business domain iv) the domain should champion increased resource commitment.

The changes they identify (Haspeslagh and Jemison, 1991: 211- 221) associated with these tasks are as follows:

1. Gate keeping role to protect boundaries: this is described as 'fighting the corporate immune system' and implies a resistance to planning and control forms.

2. Nurturing to accelerate business development: The general suggestion is that funding is provided but in their example, Hendrix generated their own resources to finance growth and development. However there was evidence that the horizons of mangers were lifted and there was some practical support in an informal way of management expertise particularly in terms of helping Hendrix with selling investment to BP management and with financial evaluations.

3. Accumulating learning: this did not result in changes to the acquired company

4. Organisational championing: the ability of acquired companies to influence the parent organisation was influenced by the projection of strong leadership showing control over operations, an ability to communicate with corporate planners and maintaining good relationships with corporate staff. However there was a negative side to this approach which led to most managers emphasising short term operating results at the expense of investment. In addition there was evidence of organisational champions trying to cast their companies in inappropriate corporate planning language.

The changes issues mentioned are summarised below.

Table 2.4 Changes in Preservation acquisitions

Change issue	Preservation Acquisitions
Lose identity	x
'Fight the corporate immune system' (:215) and resist change	✓
Raise acquired management sights	✓
Providing support - management expertise	nothing formal
Providing support - financial evaluation	✓
Invest	x

Quite clearly the emphasis here is upon resisting change rather than experiencing it. Whilst they suggest that 'nurturing' is an important part of Preservation acquisitions and that they would expect to see investment from the parent, in their case example it is clear that this has not happened and that any investment in fact comes from the acquired company's own cash generation. There may be some support in informal management terms and rather more formally there may be financial evaluation.

3) Symbiotic acquisitions

Haspeslagh and Jemison (1991) regard Symbiotic acquisitions as the most substantial management challenge due to the twin needs of preserving the

acquired company's culture and encouraging interdependence between the two firms by resource transfer. They quote an executive in the ICI-Beatrice acquisition as saying 'We knew from day one that they had to retain their entrepreneurial, market oriented culture and be run at arm's length. Yet at the same time, we had to find ways to get the synergy' (Haspeslagh and Jemison, 1991: 222).

Four stages can be recognised in the Symbiotic process i) start with preservation of the acquired company; ii) acquired company reaches out rather than visa versa; iii) both company trade responsibility for strategic control; iv) the organisations are amalgamated (Haspeslagh and Jemison 1991: 222). The sorts of changes that we might expect are as follows (Haspeslagh and Jemison, 1991: 224 - 235).

The acquired company will be protected from uncontrolled interventions (indeed change may well happen in the acquiring company to ensure compatibility). At the operating level the firms remain distinct and the acquiring firm may have the use of some people from the acquirer to point out opportunities. To achieve further integration managers may take on double roles, individuals may be regrouped and there may be new investment in buildings. The key however is the quality of the interface team.

Whilst Haspeslagh and Jemison (1991) convey the sense in which a Symbiotic acquisition would work, their description is very vague about what changes would take place apart from setting up an interface or gatekeeping structure and a gradual move towards integration through regrouping individuals and some new investment.

4) Holding acquisitions

Haspeslagh and Jemison did not find an example of a Holding acquisition and so do not comment upon the sorts of changes that such an acquisition would experience. However they do make the comment that these companies are likely to be held to be traded. This value capture approach tends to suggest that there will be minimal interference with the acquired company and indeed Holding acquisitions experience very low levels of resource transfer. However we should be mindful that they also have a low autonomy and we have already suggested that autonomy is negatively associated with change. We should not be surprised therefore if Holding acquisitions do experience change although we have no guidance as to where that change might occur.

2.5.2.3 Summary of changes by acquisition type

The following table attempts to summarise the changes identified by Haspeslagh and Jemison (1991) by their integration types.

Table 2.5 Summary of changes by integration type

Stage setting	Change issue	Absorption	Symbiotic	Holding	Preservation
✓	Financial controls	✓	✓	✓	✓
✓	Gatekeeping structure	✓	✓	(✓)	(✓)
✓	Communication	✓	✓	✓	✓
	Choose a leader	✓			
	Choose management team	✓			
	Set up task forces	✓			
	Rationalise	✓			
	Reduce costs	✓			
	Develop differences Inve t	✓	(✓)		x
	Lose identity	✓			x
	Resist change		✓		✓
	Provide support		(✓)		(✓)

In terms of change, the main detail is focused upon significant amounts of change in Absorption acquisitions and very low amounts of change in Preservation acquisitions. For the other two types of acquisition there are precious few indicators of what changes are made or areas that should stay the same. For instance, Haspeslagh and Jemison (1991) suggest that the use of task forces is very important in Absorption acquisitions. These teams often run in parallel with the line managers 'to study, identify issues and make recommendations' (McCann and Gilkey, 1988: 154). However are we to assume

that lack of mention elsewhere means that they are not employed in other acquisition types?

2.5.3 Haspeslagh and Jemison post-acquisition change critique

We can see from the review above that Haspeslagh and Jemison (1991) do not give much detail of the changes we might expect to see in each integration type. The few clues they do provide are not dealt with consistently and this prevents us from perceiving how different areas of change relate to each of their four acquisition management approaches. In addition they have not tested the robustness of their framework in terms of changes made.

For further ideas of what changes may occur in a target company we shall firstly consider the post-acquisition change literature. Although this will suggest a number of additional areas of change to examine, this will be insufficient for our purposes. Despite the large volume of writings on the post-acquisition period, which largely consists of attention to human resource issues, there is a paucity of research into what changes are actually made. For instance on just a functional level there is very little on marketing, operational and information technology changes. This is also a reflection of the dominant trend in the post-acquisition literature, which has been processual in nature, focusing upon the

facilitators and implementors of change rather than the actual changes themselves.

Where there are studies of actual changes, they generally attempt to provide broad prescriptive advice which ignores large variations in acquisition styles. Most of these studies are not systematic, comprehensive or tested and may result in inaccuracies. Due to the lack of a refined instrument for assessing change in the post-acquisition period, we will not constrain our research with the acquisition literature but will also refer to the analogous area of turnarounds, in particular a study of sharpbenders, and the "taking-charge" literature.

2.5.4 Post acquisition literature

Case study evidence indicates that the period after an acquisition is marked by great uncertainty and upheaval in the target company (Buono, Bowditch and Lewis, 1985, Sales and Mirvis, 1984, Mirvis, 1985, Mirvis and Marks, 1992). It is clearly a time of tremendous change and indeed 'the acquirer must effect changes if value is to be realised' (Shanley, 1994: 392). Despite the recognition of this upheaval, 'little attention is devoted to what happens in firms after changes in ownership' (Shanley and Correa, 1992, Shanley, 1994).

2.5.4.1 Generic areas of post-acquisition change

There are very few studies which attempt a comprehensive coverage of change in acquired companies. Their rarity may be due to the complexity of the issue for, as Searby (1969: 6) states, even a modest integration 'may involve 2,000 changes' and gives the example of a critical path program used by the Pennsylvania and New York Central railroads where 400 steps were needed just to consolidate their equipment maintenance functions. Perhaps for this reason the few articles on post-acquisition change can seem to be a list of rather general categories.

A classic study which identifies key areas of change is by Kitching (1967) who interviewed the top executives in 22 firms about 69 acquisitions. Although he was seeking to relate pre-acquisition factors to post-acquisition outcome, he observed that producing change to realise synergies is extremely difficult. 'Don't think its hard to realise synergy; its not. It's damn near impossible'. 'It requires stock incentives in front and a red hot poker behind' to produce change (Kitching 1967). Kitching believes that the keys to success are: i) good change oriented top management; ii) good reporting; iii) installing a system of controls with a major emphasis upon information reporting rather than budgets - as one of his executives puts it 'suddenly our biggest product is paper reports' (Kitching, 1967)

Other researchers have also commented upon the generic importance of: 1) top management (McCann and Gilkey, 1988, Siehl and Smith, 1990, Cannella and Hambrick, 1993); 2) financial controls (McCann and Gilkey, 1988, Jones, 1985a); and 3) communications (Leighton and Tod, 1969, Bastien and Van de ven, 1986, Prichett, 1985, Schweiger and Denisi, 1987 , DeNoble, Gustafson and Hergert, 1988, Napier, Simmons and Stratton, 1989). These generic issues are echoed in Haspeslagh and Jemison's (1991) stage setting phase with setting up a gate keeping structure, the imposition of financial controls and targets and communication. We will discuss the similarities and differences in the sections below.

1. Top management

Many studies above have pointed to the importance of senior management in acquisitions (Kitching, 1967, McCann and Gilkey, 1988, Siehl and Smith, 1990, Cannella and Hambrick, 1993). Clearly this poses the question of whether the senior management of the target company should stay or go. 'Comprehensive changes in top management are often crucial for acquisition success' (McCann and Gilkey, 1988).

Several post-acquisition studies address the issue of senior executive retention. In his study of 200 acquisitions by Fortune 500 members, Hayes (1979) recorded that only 42% of top managers remained with their company five years

after acquisition. A more recent study of major acquisitions in the US found that 67% of all acquired senior executives had left within four years (Cannella and Hambrick, 1993) and amongst the 100 largest acquisitions in the UK 1990 - 1994, 57% of chief executives were no longer in their positions two years after the deal (Angwin, 1996).

Walsh (1988) examined 55 acquired companies and 30 control companies to demonstrate that top management turnover was significantly higher for the acquired companies than the control companies. In a later study of 102 target companies, 77 parent companies and 75 control companies, Walsh and Ellwood (1991) showed that turnover was higher in the two years after a merger than for other companies.

The evidence appears to suggest that there is significantly higher turnover amongst the top management of acquired companies than non-acquired companies. This seems to support the theory of corporate control, that alternative management teams compete for the right to manage corporate resources (Jensen, 1988), where acquired managers are perceived to be inferior to acquiring managers and are therefore replaced. Being acquired therefore is a sign that the incumbent management is sub-optimal and change will enable improved corporate performance.

Franks and Mayer (1996) have sought to test this notion by examining 58 hostile take-overs in the UK in 1985 and 1986. 'If hostile take-overs perform a disciplinary role, we should see a high level of managerial turnover' (Franks and Mayer, 1996: 166). Their findings show that 90% of directors resign after hostile bids whereas 50% resign after accepted bids[10]. Franks and Mayer (1996: 166) do not find this 'sufficient condition for take-overs to be disciplinary because it could reflect disagreement over a strategic re-deployment of assets'. They therefore test for post-acquisition restructuring based upon asset disposals as well as poor pre-acquisition performance. They find that hostile acquisitions are associated with restructuring but that there is little evidence to support the notion of poor pre-acquisition performance. They conclude therefore that whilst hostile acquisitions are associated with high levels of boardroom changes, these reflected disagreement over asset re-deployment rather than pre-acquisition performance. On this basis they do not see hostile acquisitions as a discipline on management.

Whilst Franks and Mayer (1996) have cast doubt upon the issue of corporate control as a reason for top management turnover they appear to have overlooked other issues. A successful target top team may not want to work for the acquirer - there is some evidence that large acquirers are worse performers than the companies they take-over. In contrast, the acquirers may wish to change the target top management as a signal to stakeholders that there will be change. This

[10] Significant at the 1% level.

may be a recognition of the influence of the top management as an impediment to change or simply using them as a scape-goat for the loss of their company's independence.

With the exception of Franks and Mayer (1996), most studies of top management change following take-over tend to examine a few broad characteristics of acquisitions rather than adopting a typology. Walsh (1989) identified relative size as an important issue with which turnover was positively associated and Cannella and Hambrick (1993) did not find a simple correlation between relative size and turnover but found a negative association with the degree of friendliness, pre-acquisition performance and relative performance.

None of these studies looks at the turnover of senior management in the context of different integration styles and the few associations above do not give any clues as to what one might expect. One study by Hayes and Hoag (1984) suggests that turnover is negatively related to the degree of autonomy but there is no evidence that statistical tests were performed. We might pursue this line in the context of Haspeslagh and Jemison's (1991) framework and suggest that those styles with greater autonomy are likely to retain their senior management whereas those styles with low autonomy will lose them.

We might also bear in mind that the transfer of resources may lead to greater changes in the target company and this is inimitable to the preservation of

competencies. We may conclude therefore that the greater the degree of resource transfer, the less likely it is for senior executives to be retained.

On this basis it is clear that in Preservation cases, we would expect incumbent executives to remain with the target company and with Absorption acquisitions, the incumbent executives are likely to depart. The other two acquisition types beg the question as to which of the two dimensions is the more dominant - autonomy or resource transfer.

Proposition 7.: Preservation acquisitions will retain more senior executives than Absorption acquisitions

Haspeslagh and Jemison (1991) do not focus upon the issue of top management directly but identify the generic issue of gatekeeping structures. A key member of this structure is the Managing Executive[11] of the acquired company. He is only mentioned in terms of choosing a leader for Absorption acquisitions which implies a change. Clearly there is an important issue here of whether the Managing Executive remains post-acquisition which leads us directly into a

[11] Throughout the thesis the term Managing Executive will be used to denote the most senior executive director of the acquired company. Terms such as chief executive or managing director were not used due to the confusion surrounding titles post-acquisition.

discussion upon the merits of Insiders versus Outsiders. This is the subject of a separate section (see section 2.6) and will not be pursued here.

2. Financial controls

There is considerable evidence from the post-acquisition literature that the imposition of financial controls at the outset of the post-acquisition phase is widespread. 'There seemed to be no question that the control system of the acquirer had to be adopted' (Business International, 1992: 71). Acquired executives perceived acquiring companies as omnipotent in this area and although the acquired company's system was sometimes out of date there was evidence that it was just not understood by the acquirer and that the 'HQ expects to rule'. The financial area is always the first and most important areas to integrate (Business International, 1992: 64). This concords with McCann and Gilkey's (1988) view that finance teams are the 'shock troops' of the acquisition, 'charged with gaining control of cash, other liquid assets and the financial reporting system' (McCann and Gilkey, 1988: 155).

In a study of management accounting techniques (MATs) in acquisitions by thirty large UK predominantly manufacturing companies, Jones (1985a) has shown that all techniques used were of significantly greater importance (at the 1% level) in the two years following acquisition than before the acquisition. The techniques that became most important were monthly accounts and reports, budgeting in operating companies and formalised capital expenditure. Jones

perceives these techniques as 'important devices for establishing post-acquisition control' (Jones, 1985a: 184).

Jones then related MATs to different types of acquisition. His findings were that the changes in MATs for each acquisition type were remarkably similar leading him to conclude that either there is a similar need in all acquisition circumstances, such as the need for integration, motivation control or 'that acquirer's were not discriminating in the changes made to MATs and therefore failed to optimise any benefits that the selective use of MATs might confer' (Jones, 1985a: 185). 'The changes introduced in MAT suggest that acquiring companies were inclined to extend bureaucratic or mechanistic forms to acquired companies'. This inclination towards more rigid organisational forms occurred despite the professed desire of many acquirers to 'encourage autonomy' (Jones, 1985a: 190).

In a later study, Jones explicitly related his 'universalistic' findings in the application of MAT to a contingency model of acquisitions. Overall he found that 'MAT tended to bear the characteristics of the universalistic theory of MAT with a substantial degree of carry-over from one organisation to another, regardless of organisational differences and contingent variables were explicitly recognised to only a modest extent' (Jones, 1985b: 321).

Wilson (1992) suggests that financial changes can be used not just in its historical role of providing information and guidelines for decision making, but

as 'a force for shaping organisational change' (Wilson, 1992: 65). In particular managers can use 'financial data to support their cause or to refute the countervailing claims of others' (Hickson et al, 1986 in Wilson, 1992: 66). Three effects of using accounting data noted by Wilson are the foreshortening of time horizons, suppression of innovation and decision making constraints on senior managers. Auditing measures of performance 'sets powerful boundaries around strategic action' (Wilson, 1992: 67). Although this statement is meant in relation to stock market indices one could easily see that this might also be appropriate in an acquisition context of performance measures from head office. The imposition of financial controls therefore can been seen to receive widespread acknowledgement and support and we would expect all our integration types to experience the imposition of financial controls.

3. Communications

One of the main causes of merger failure is the 'merger syndrome' (Mirvis and Marks, 1985) where mistrust and alienation can lead to the complete disruption of the acquisition. Left uncontrolled, information about the acquisitions will circulate throughout the organisation's rumour mill, heightening employee's fears and anxieties (Buono and Bowditch, 1989).

Researchers in the human resources field point to communications as vital to post-acquisition success (Leighton and Tod, 1969). Good communications reduce the anxiety and uncertainty surrounding the acquisition (Prichett, 1985) and motivates the target company for the future. 'The challenge facing management is how to walk the fine line between making operating changes and alienating employees. This will never be an easy task, but the best chance for success is to engage in open communications with all employees' (De Noble, Gustafson and Hergert, 1988). There is a symbolic dimension to these communications as it signals to employees that management cares (Schweiger and DeNisi, 1987).

Less often mentioned is the importance of two way communications. 'Establishing effective two-way communication systems early in the merger-acquisition process is of paramount importance' (McCann and Gilkey, 1988: 151). 'Communication is crucial, somebody has to be aware of every detail. If the location of the drinking fountains is important to employees, someone has to be prepared to deal with that issue. If information like that isn't communicated, you can't be sensitive to the subtle and symbolic concerns that can make or break you during the transition process' (chief executive of a firm in one of the largest take-overs in 1985, in McCann and Gilkey, 1991: 151). The opportunity for employees to express their concerns and receive relevant information is an important issue (Buono and Bowditch, 1989, Schweiger and DeNisi, 1987).

Schweiger and Walsh (1990) in their inter-disciplinary review of the literature cite many studies that have tried to asses the impact of communications upon organisational performance. Their conclusion is that there is no unambiguous relationship between communication and organisational performance but that the longitudinal study by Schweiger and DeNisi (1987) which compared a light manufacturing plant which received communications during a merger (experimental plant) with employees in a plant that did not (control plant) showed that communication does play an important role in minimising uncertainty and damage.

Haspeslagh and Jemison (1991) see communications as a vital part of the stage setting phase as it minimises the negative aspects of change. However, presented in a generic way, as shown above in Table 2.5, communications are portrayed as equally important for all integration types. We might suggest however that if there is little change, then communications will be of much less significance than where there is a lot of change. We would expect communications then to be positively associated with the amount of post-acquisition change. Based upon the assumption in proposition 6, that the amount of change will increase from Preservation, through Holding, Symbiotic to Absorption acquisitions, we would expect changes in communications to mirror this pattern.

Proposition 8.:	Changes in communication will be positively associated with the level of change in the acquired company

A study by Napier, Simmons and Stratton (1989) of two merging banks, draws a distinction in terms of the type of communications employed. They discovered that employees in both banks relied on different media. Employees in the acquiring banks relied upon formal channels such as memos, letters, newsletters and meetings with top management, whereas employees in the acquired bank relied heavily upon informal sources. Although their overall observation is that formal communications are more important than informal ones, in their historical and longitudinal study of eight mergers, Bastien and Van de Ven (1986) concluded that initially uncertainty appears to be inversely related to the quantity of formal communication from the acquiring company management to the acquired organisation. 'In the longer term however, uncertainty appeared to be inversely related to the quantity of interpersonal communication between acquiring and acquired company managers' (Bastien and Van de Ven, 1986: 34). Although they develop a typology of different types of acquisition, they comment that 'communication and honesty' are central to minimise disruption.

There may well be a parallel here with Kotter's work on the General Managers (1988) where he observes that when a general manager takes charge, the use of informal communications is far more effective in terms of learning about the organisation and bringing about change than formal approaches. We might conclude therefore that where acquired companies experience significant change, informal communications will be important.

Proposition 9.:	Informal communications will be positively associated with change in acquired companies.

It is also worth noting that communications studies in an acquisition context have focused almost entirely upon internal issues and have therefore ignored external stakeholders. Clearly customers and suppliers play a vital role in the success of an organisation and their concerns over an acquisition can have dire consequences. An acquisition can lead to a complete change in identity and this 'involves transformations in every key stakeholder relationship' (Kanter, Stein and Jick, 1992: 212). One might suggest that the extent to which an acquired company experiences changes will be related to the importance placed upon external communications as efforts will be made to assure external stakeholders that their interests will be safeguarded.

2.5.4.2 Functional areas of post-acquisition change

The post-acquisition literature tends to focus upon functional areas of change. Kitching's (1967) classic study highlighted a number of such functional changes when he contrasted areas of highest synergy potential and related them to the actual payoff. Figure 2.3 shows this comparison which suggests that some areas might be more prone to change than others. For instance, although there are low synergies to be had in finance, the payoff is high.

Figure 2.3 Areas of synergy potential*

Synergy potential	Function		Actual payoff	Ease of synergy release*
High	Production:	Economies of scale	**Low**	**Low**
↑	Technology:	Sharing R & D and processes	↓	↓
↑	Marketing:	2 products through 1 channel	↓	↓
↑	Organisation:	Eliminate duplication	↓	↓
Low	Finance:	Increased borrowing capability etc.	**High**	**High**

Kitching (1967)

*Constructed from the text: 50-52

**The order for Production and Technology are in fact reversed, albeit by a very small margin, but shown in this manner for ease of presentation.

Kitching (1967) goes on to say that the payoff may be related to the ease with which the synergies can be achieved and the speed they can be delivered. Figure 2.3 above is taken from Kitching's (1967) text and juxtaposes payoff with ease to find a similar pattern through the functions. This perhaps gives a rationale for the studies cited earlier that change is frequent and widespread in the finance area.

Searby (1969) complements Kitching's (1967) paper by suggesting some 28 areas of decision regarding changes that might be made. His groups are similar to Kitching's (1967) except that he emphasises the personnel aspect whereas Kitching identifies production. Searby's (1969) areas of change are in terms of finance, corporate organisation, marketing, technology, personnel and public relations.

A practitioners perspective is presented by Yunker (1983) who focuses upon financial systems and computer integration, personnel and benefit policies, marketing and sales interface, technology and manufacturing. His prescriptive advice strikes a chord with Kitching's (1967) observations regarding payoff as he emphasises the parental wish to have its own more sophisticated financial systems, its preference for uniform personnel policies, and minimal interference in operations. In addition, Yunker (1983) points out the difficulties of integrating computers.

One of the few more rigorous studies of change in the post-acquisition phase is by Shanley (1987). He moves away from a more functional perspective and adopts five general categories of change which have both task and human resource implications. Shanley (1987) sees the task element as being the primary management action whereas the human resources element is the implication or consequence of those management actions. 'Although the literature is sparse on the range of actions employed by acquirers, five general areas in which newly acquired firm could be changed are apparent: formal structure, decision making, controls, top management, compensation and benefits' (Shanley, 1987: 55-56). Whilst these areas add a dimension to the earlier works above, there is no sense of 'completeness' about his selection.

Table 2.6 Post-acquisition areas of change

Area of change	**Kitching 1967**	**Searby 1969**	**Yunker 1983**	**Shanley 1987**	**Baden-Fuller and Boschetti 1996**
Finance			✓*		✓
- controls	✓	✓		✓	
- performance	✓	✓			
- external relationships		✓			
Corporate Organisation					
- Top executives	✓	✓		✓	✓
- Profit centres	✓	✓			
- Organisational	✓	✓		✓	
structure	✓			✓	
- Areas of authority					
- Central services (PR, legal)					

Table 2.6 (contd) Post-acquisition areas of change

Sales and Marketing			✓		✓
- distribution	✓	✓			
- product lines	✓	✓			
- advertising	✓	✓			
- sales forces	✓	✓			
- marketing forces	✓	✓			
	✓	✓			
Production			✓		✓
- purchasing	✓	✓			
- scheduling	✓	✓			
- facilities planning	✓	✓			
- quality		✓			
Technology			✓		✓
- R & D processes	✓	✓			
Personnel			✓		
- redundancy		✓		✓	
- recruitment		✓			
- benefits		✓		✓	
- development programmes		✓		✓	
Information technology			✓		
Communications					
- reporting relationships	✓	✓		✓	
Method	22 interviews on 69 acquisitions	Unknown	Practitioner's experience	Questionnaire returns for 51 acquisitions + 22 interviews	Case study of 2 mergers

*Where the broad function is mentioned without specific detail

One of the most recent studies on post-acquisition change has reverted to a straight forward functional typology. By taking a Resource-Based View and claiming that many strategic assets lie inside functions, Baden-Fuller and

Boschetti focus upon individual functions of the firm (Baden-Fuller and Boschetti, 1996: 97).

Other studies have tended to focus upon a particular area of change without a consideration of the broader picture. The majority of these studies tend to focus upon a functional area and are very fragmented in nature leaving clear gaps in the literature. We shall now review these studies.

- **Information technology / information systems**

The few studies existing in this area are making claims for the general importance of information technology information systems in all acquisition situations on the basis that Information technology is an increasingly important aspect of modern organisations. 'It is the means through which control, planning, financial, operating and management information systems are achieved' (Merali and McKiernan, 1993: 108). However very little indeed has been written on the issue of information technology and information systems in an acquisition context. 'Both the anecdotal and the academic literature in this field are sparse' (Merali and McKiernan, 1993: 107). One of the few papers by Merali and McKiernan (1993) points to the 'huge capital costs of integrating I.T. systems' and 'a void in defining the types of information systems that are necessary' (Merali and McKiernan, 1993: 107). Buck-Lew, Pliskin, Shaked and Wardle (1992) also point to the expense of integration where there is an

incompatible technological environment and suggest that although operational dependence on information technology is increasing, the corporate strategy of many companies is not critically dependent upon information technology performance. As a result its consideration is often omitted from strategic evaluation of acquisitions.

Merali and McKiernan (1993) use the Haspeslagh and Jemison integration framework to suggest where information technology/information systems issues are likely to be most important. ' The Preservation and Holding categories exhibit a low level of strategic linkage, so information systems infrastructure can, more or less, be left intact. It is the Absorption and Symbiotic acquisitions, where strategic interdependence is high, that pose the greater difficulty of post-acquisition integration of the information systems infrastructure' (Merali and McKiernan, 1993: 55). Despite the suggestion that information systems information technology might be important in Symbiotic acquisitions, they also suggest that it could remain separate. In other words it is only in Absorption acquisitions that they clearly expect information systems information technology changes to occur. They cite a study by Ball (1988) which estimates that 70% of merged companies combine information systems operations immediately after the merger transaction whilst 90% eventually combine them within one year.

Merali and McKiernan (1993) do not test their assumptions regarding the importance of information systems/information technology for each acquisition type and prefer to concentrate upon Absorption and Symbiotic acquisitions. Whilst their inference regarding the association of information systems/information technology's importance with integration may be correct, this may not be a clear indicator of whether change takes place in the other acquisition types. Nevertheless, we can test their assumption that changes in information systems information technology are more pronounced in acquisitions exhibiting high capability transfer than those with low capability transfer.

Proposition 10.: Absorption and Symbiotic acquisitions will exhibit more change in information systems / information technology than Holding and Preservation acquisitions.

Merali and McKiernan (1993) generally talk about information systems information technology in the same breath, although one might believe that changes in one are more likely than in the other. For instance, information systems may be changed more often if the existing technology is capable of accommodating it. On this basis we might also look out for more changes in information systems than information technology.

- **Human Resource issues**

We have already examined change in top management in section 2.5.4.1 and pointed to the important issue of retaining the Managing Executive to which we will return in section 2.6. In addition we have also raised the little explored issue of middle management change.

Whilst there were a number of cross-sectional quantitative studies in the area of changing management, the rest of the huge literature on human resource issues consists almost entirely of rich individual case studies concentrating upon the psychological impacts upon employees as well as the facilitating and resisting conditions of change. For instance, Schweiger, Ivancevich and Power (1987) stress employee concerns, and look at the characteristics of what constitutes effective management action, namely commitment, honesty, understanding. Regarding the changes themselves, they just list a range of some nine changes which may or may not occur in other acquisitions and indeed may occur under normal operating conditions such as changes in jobs, job losses, changes in status. In other words the human resource literature rarely comments upon the changes themselves and of course when they do the observations are very case specific.

One of the few studies which seeks to look at changes across several acquisitions is by Schweiger and Weber (1989). They examined the pattern of

integration between personnel policies and systems in 80 related M & As. They found that in 50% of cases, the acquired firm adopted the policies of the new parent, in 30% of cases the policies remained separate and in only 3% of cases were the acquired firm policies adopted[12]. Although the target company in a related acquisition is more than likely to experience change in its personnel policies and systems, in some ways it is surprising that the change is not more prevalent.

Haspeslagh & Jemison's (1991) typology is only loosely associated with the relatedness concept and so we might fruitfully examine changes in personnel policies and systems in their context. We would expect to see greater change where there is more interdependence between the two firms.

Proposition 11.: Absorption and Symbiotic acquisitions will exhibit more change in personnel policies than Holding and Preservation acquisitions.

Napier (1989: 274) acknowledges that there is little description of actual changes in the Human Resource area, little recognition of whether changes by type of merger or degree of integration, and which actions occur when. She

[12] The remaining cases consisted of 8% being the development of new policies and in 9% of cases the policies were the same pre-acquisition.

proposes a framework of acquisition types against which she relates certain human resource changes. These types might be loosely related to the Haspeslagh and Jemison framework. Firstly in 'extension' acquisitions or conglomerate mergers, which we might associate with Preservation and Holding acquisitions, she suggests that the 'hands-off policy' will result in little change to human resource issues. Even when the acquired company is in poor shape, independence will be maintained and she cites Seafirst, an acquisition by Bank of America, as an example of low intervention. For 'collaborative' acquisitions, which appear similar to Symbiotic acquisitions, there may be extensive change but in terms of policies and practices developing out of existing ones. For 'redesign' mergers which appear akin to Absorption acquisitions, as the acquired company is related and has changes imposed by the acquirer to mould it in its own image, changes are likely to be the most extensive. The following figure illustrates the areas where Napier identifies change.

Figure 2.4 Types of Human Resource change by acquisition type

Change issue	**Redesign** *Absorption**	**Collaborative** *Symbiotic**	**Extension** *Preservation**
• Human resource planning	⇒ Wide ranging replacements	⇒ Creating new teams ⇒ Reduction in staff	⇒ No change
• Selection	⇒ Top team turnover	⇒ Top team turnover	⇒ No change
• Compensation and performance appraisal	⇒ Change compensation and benefits policies	⇒ (not specified)	⇒ No change
• Development and employee relations	⇒ Considerable communications ⇒ Considerable training	⇒ Considerable communications ⇒ Considerable training	⇒ Limited communications

Napier (1989) (constructed from text)

* *Suggested Haspeslagh and Jemison (1991) types*

Napier's acquisition styles may well be analogous to those of Haspeslagh and Jemison (1991) and so we could look for similar associations in the latter's typology. We have already dealt with the issue of top team change and also communications. However the issue of compensation and benefit policies is interesting as it might well be a differentiating issue for the three acquisition

types mentioned above. Compensation and benefit policies might well show change in terms of economies of streamlining systems but as the psychology literature suggests, it can be used to reinforce approved behaviour. We might therefore expect that this area will change in acquired companies where they are absorbed, as these items are likely to be standardised, developed in Symbiotic acquisitions and left alone in Preservation acquisitions. In addition the issue of training may also be perceived along the same lines.

Proposition 12.: Different acquisition types will exhibit significant differences in changes to compensation and benefits.

2.5.5 The 'Turnaround' literature

We can see from the above that the post-acquisition literature is very fragmented in nature and gives uneven suggestions for the sorts of changes that we might expect to encounter within Haspeslagh & Jemison's (1991) typology. To assist us in this endeavour, we can turn to a related literature on turnarounds. These studies offer more comprehensive guidance for changes that might take place in the post-acquisition phase. The following section argues for the analogy between acquisitions and turnarounds.

2.5.5.1 The Turnaround acquisition analogy

There are clear parallels between post-acquisition management and corporate turnarounds. Indeed Slatter remarked upon this himself in his opening chapter on corporate recovery (Slatter, 1984: 13). The parallels would seem to be that the companies in both situations are experiencing a crisis and that there is a need to make changes to achieve sustained improvement (c.f.Eccles, 1993).

Being acquired can be seen as an external trigger for change and is evidence of an organisation in crisis[13]. Very often the acquisition is a result of the acquired company either experiencing or anticipating a threat from competitive or environmental variables. This alone is a crisis and similar to turnarounds, but in addition, the acquired firm experiences a change in ownership which leads to tremendous uncertainty throughout the firm from the strategic level of 'what will happen to the business' down to the individual level of 'will I have a job?' In many cases acquired companies are fully aware of a need to change and the

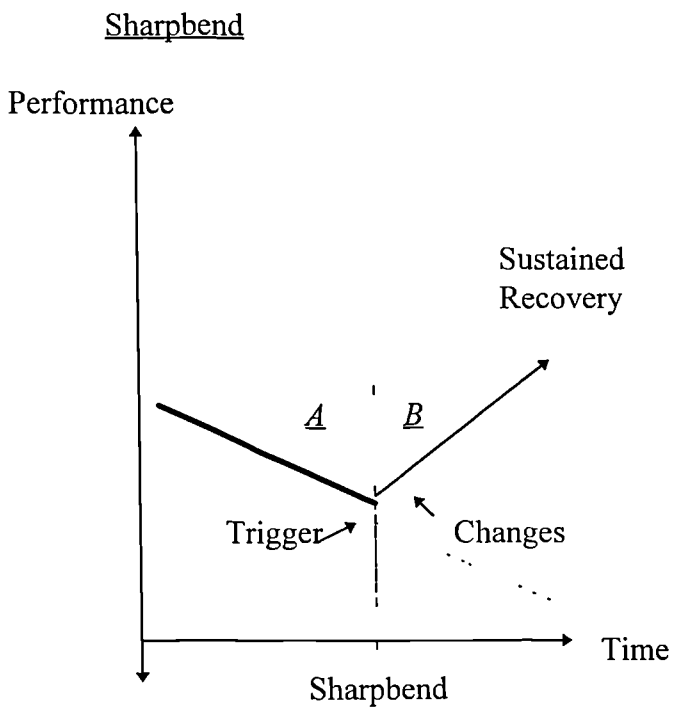
[13] The assumption here is that a firm is in crisis if it is acquired. There are two parts to this statement; the first is that firms for acquisition are experiencing or anticipating a crisis, and secondly that the act of being acquired is in itself a crisis. We would argue that if firms are doing well then they would not allow themselves willingly to be acquired. If they are acquired then they must feel that there are weaknesses that need to be tackled which could not be done with their own resources. For those firms who repel acquisition, hostile acquisition is undoubtedly a crisis. The act of being acquired raises tremendous uncertainties which will also serve to enforce a sense of crisis.

act of being taken over is simply evidence of this need. However the visibility of acquisition crystallises the need to change and this expectation only adds to the sense of crisis. In both turnarounds and acquisitions therefore there is a crisis which needs to be addressed by change. The crisis literature describes this as second order or metamorphic change where rapid discontinuous change is expected (Meyer, Brooks & Goes, 1990). Turnarounds clearly show substantial and frame breaking changes to reverse unhealthy performance (Slatter, 1984) and this change can take place independently of environmental change.

It is important to note that although the term "turnaround" immediately evokes images of companies on the verge of bankruptcy, it is also applicable to firms which may well be stable at the current time but exhibiting the symptoms of decline and failure. Similarly with acquisitions, only a minority are in a perilous condition whereas the vast majority are experiencing or anticipating severe competitive or environmental threat. Through acquisition, it is intended to overcome the crisis and realise greater value from the acquired company than its cost. The parallel with turnarounds is that changes are made not only to avert the immediate crisis but also to launch the company upon a path of sustainable recovery. Grinyer, Mayes and McKiernan (1988) characterise this as a 'sharpbend', 'companies which have been in decline relative to their competitors, which have then exhibited a marked and often dramatic, improvement in performance' (Grinyer, Mayes and McKiernan, 1988: 2- 3). If we refer to their diagram of a sharpbend, later modified by McKiernan (see

figure 2.5), we suggest that post-acquisition management is attempting to achieve similar aims to sharpbenders in terms of recovering from a crisis and achieving a sustained recovery (see part *B*)

Figure 2. 5 Stages of a turnaround



Source: Grinyer et al. (1988) - modified by McKiernan (1993)

The value of referring to the turnaround literature is that it is a rich source on the types and timing of change. It examines the steps taken by businesses wishing to reverse a real or anticipated process of decline and if our suggestion of close parallels between post-acquisition management and turnarounds is apposite,

then the changes made during a turnaround may well be present during the post-acquisition phase.

It is worth pointing out that the turnaround literature does have a limitation in that it only focuses upon generic change and does not consider that there may be different types of turnaround.

2.5.5.2 Turnaround areas of change

The Turnaround literature has drawn attention to a number of important areas of change to enable improved performance. Slatter's (1984) classic work on corporate recovery suggests that asset reduction, change of management, improved financial controls, and cost reduction (although for this issue, less than in unsuccessful recoveries) are characteristic of successful turnarounds. Two other items of importance appear to be debt restructuring and organisational changes.

Grinyer, Mayes and McKiernan's (1988) work on Sharpbenders shows many similarities with Slatter's (1984) study. In particular both works emphasise major changes in management, stronger financial controls, and intensive efforts to reduce production costs with attention to debt also being cited as important.

The occurrence of many items in both studies is interesting as there are important differences between the two studies. Slatter's (1984) work concentrates upon turnarounds; 'companies whose financial performance indicates that the firm will fail in the foreseeable future unless short term corrective action is taken' (Slatter 1984: 14) whereas Grinyer, Mayes and McKiernan (1988) study of Sharpbenders focuses upon companies that 'achieve a sharp and sustained improvement in performance' (Grinyer, Mayes and McKiernan, 1988: 9). In the latter case there were examples of companies that were not likely to fail in the short term and so it would not be surprising to find differences in the areas of change identified. In addition the comparators are different as Slatter (1984) contrasts successful and unsuccessful turnarounds whereas Grinyer, Mayes and McKiernan (1988) compare sharpbenders with control companies. The studies also took place at different time periods.

Despite the differences we find many similarities in their results which strongly suggests that similar changes are made in times of crisis to achieve marked improvements in performance. If there are parallels between post-acquisition management and turnarounds as we have suggested above, then we would expect to see the changes highlighted above to assume importance in post-acquisition situations as well.

The sharpbenders study chooses to focuses upon companies that are exhibiting marked change rather than those that are in a financially challenged situation.

This is more closely akin to acquisitions as most acquired companies are not at the point of failure. However upon acquisition there are clear efforts to realise the premiums paid by making changes to achieve superior performance. In this sense we would expect to see the changes identified in sharpbenders to be present in post-acquisition management.

- Sharpbender areas of change

The main areas of change identified by the sharpbenders, where these companies differed substantially from their control companies, are as follows.

- Top management change

In essence the Sharpbenders study reinforces the suggestions in the acquisition literature of the importance of major change in management as this occurred in 85 % of successful cases. However, sharpbenders places particular emphasis upon the critical importance of the chief executive. We will revisit this issue in the following section (section 2.6).

- Financial control change

80% of sharpbenders adopted stronger financial controls. The importance of this area has already been noted in the acquisition literature.

- Marketing change

'Turnaround firms characterised by poor management rarely - if ever - have a well executed marketing plan' (Slatter, 1984: 93). 75% of sharpbenders made changes to their marketing whereas only 30% of control companies made changes. 'Whilst the precise emphasis of the marketing changes made by our sharpbenders varied according to the nature of their business, there can be no doubt of the importance that most of them attach to marketing' (Grinyer, Mayes and McKiernan, 1988: 91). It would be surprising therefore if the post-acquisition phase did not see a similar attention to improving marketing.

Although Slatter highlights changes in selling, pricing, distribution channels and promotion, the main area of change for sharpbenders was stressing getting closer to the customer, in line with Peters 'obsession with customers' (Peters, 1986). Grinyer, Mayes and McKiernan (1988) explored this mentalité and found that nearly half deliberately tried to develop close relations with their customers as part of the sharpbend (Grinyer, Mayes and McKiernan, 1988: 89). 'High pressure forced companies closer to their customers' (Grinyer, Mayes and McKiernan, 1988: 91).

- Production cost reduction

80% of sharpbenders reduce production costs and 50% of them took at least four steps in this category. 'Reduction in costs clearly play a central role in the achievement of a successful sharpbend' (Grinyer, Mayes and McKiernan, 1988:

91). Grinyer, Mayes and McKiernan (1988: 91), also point out that high costs are also clearly evident as a cause of relative decline in 65% of cases. They feel that 'attention to costs is a major response to pressure' (Grinyer, Mayes and McKiernan, 1988: 91).

- Reduced debt

Debt reduction was more common amongst sharpbenders (80% of cases) than amongst control companies (50% of cases). However Grinyer, Mayes and McKiernan (1988) make the distinction that asset sell offs by sharpbenders are often to allow further investment rather than just a reduction in debt. They are also likely to dispose of non revenue generating overheads and give the example of the sale by Collins, the book publishers, of its prestigious headquarters. In addition they will sell off loss making activities. In other words sharpbenders basic viability is not normally in question so their attention is upon financing operations without resorting to emergency measures.

The following table sets out the key changes observed in the Sharpbender study which set them apart from their control companies and are relevant to acquisitions.

Table 2. 7 Adopted Sharpbender steps

% of firms citing this factor

		Sharpbenders	% difference from controls
1	Major changes in management	85	**55**
2	Stronger financial controls	80	10
3	New product market focus	80	0
6	Improved quality and service	55	5
7	Improved marketing	75	**45**
8	Intensive efforts to reduce production costs	80	**50**
10	Reduced debt	50	**(30)**
11	Windfalls	85	15

Source: Sharpbenders; Grinyer, Mayes, McKiernan (1988)

2.5.6 The 'Taking-charge' literature

This literature in large part stems from the streams of research into the importance of the chief executive (Carlson, 1962, Helmich and Brown, 1972, Kotter 1982) and the nature of managerial work (Stewart, 1967, Mintzberg, 1973). The latter stream seeks to characterise the nature of the manager's job which they frame in terms of variety and fragmentation and in terms of communications (Mintzberg, 1973). Kotter's (1982, 1990) work turned attention towards what the general manager actually does, and the "taking-charge"

literature has adopted both the top manager perspective and the focus upon action in the context of executives taking charge of a company.

The turnaround literature has already suggested the key importance of the chief executive in bringing about change and so the taking charge literature which emphasises this role is clearly appropriate. We will look specifically at the role of the chief executive in the next section (see section 2.6). However we will first look at the changes that this literature mentions.

Gabarro (1985, 1987) examined 17 executive successions, four of which were longitudinal field studies over a three year period. Whilst he generated a range of change issues, in particular detail upon management systems and communications, he concentrated upon structural and personnel change. Other issues were disregarded on the grounds that there was little documentary evidence or that the item did not satisfy his common metric. The structural changes were based on major and minor sub-units, organisation wide change and the creation of new sub-units or functions. The personnel changes covered the hiring and firing of personnel, searching for new personnel and reassigning management. The advantage of this narrow focus and standardisation is that Gabbaro (1987) has been able to show change over time and we shall return to this issue in section 2.7. However, apart from drawing our attention to issues of structural change, his other observations merely reinforce issues previously mentioned in terms of changes in communications and management systems.

2.5.7 Review of post-acquisition change

Haspeslagh and Jemison's (1991) framework is based upon a process perspective which understates the changes that take place in their acquisition types. Apart from just focusing upon certain types, they have not tested their framework and their handling of change is partial and thin. By concentrating upon the actual changes that take place in each of their acquisition types we can test the robustness of their framework and provide a comprehensive and systematic approach to post-acquisition change in the four acquisition styles.

We referred to the post-acquisition literature for guidance on this issue but found a large number of fragmented studies. From these we extracted a number of propositions which could be tested. However, as we show in table 2.8, underlying most of the propositions is the driving concept of change being associated with resource transfer and or autonomy.

Table 2.8 Propositions on post-acquisition change and themes

No.	Proposition	Theme
6	The level of aggregate change will increase from Preservation acquisitions, through Holding, Symbiotic to Absorption acquisitions.	**Level of change against resource transfer and autonomy**
7	Preservation acquisitions will retain more senior executives than Absorption acquisitions	
8	Changes in communication will be positively associated with the level of change in the acquired company	
9	Informal communications will be positively associated with change in acquired companies.	Type of communication against amount of change*
10	Absorption and Symbiotic acquisitions will exhibit more change in information systems information technology than Holding and Preservation acquisitions.	**Change against resource transfer**
11	Absorption and Symbiotic acquisition will exhibit more change in personnel policies than Holding and Preservation acquisitions.	
12	Different acquisition types will exhibit significant differences in changes to compensation and benefits.	A discriminator of acquisition type

* This is an interesting extension of the communications literature in a post-acquisition setting, but takes us away from the bigger picture. It will therefore not be pursued.

From this point of view, we do not propose to pursue each proposition but rather concentrate upon change being associated with resource transfer and / or autonomy at the aggregate level and for items such as change in senior management. Had we pursued the individual propositions, we would not escape the problem of fragmentation.

To overcome the fragmentation issue, we turned to the turnaround literature for a more coherent approach and as a provider of further insight into change during a crisis. By using their constructs we hope to piece together a more systematic treatment of change across the four acquisition styles. The results from this treatment are contained in Chapter five.

2.6 Managing Executives and change

Shrivastava (1986) sees a crucial task of post merger integration to be the re-establishment of strategic leadership in the acquired organisation. This tends to suggest that the chief executive has an important role to play in the post-acquisition period. We might also be justified in looking specifically at the chief executive as he has been characterised as 'a breed apart' from the top management team with strong support for his distinctiveness in the area of corporate influence (Norburn, 1989: 12).

There are a number of studies that seek to show that the chief executive does make a difference to the fortunes of a company. Beatty and Zajac (1987) show that share prices often react negatively when a chief executive is changed. Other studies have linked the performance of acquired companies to the departure of chief executives and show that when these executives leave, company performance can be affected (Cannella and Hambrick, 1993). An explanation for this may be the loss of valuable expertise (Walsh, 1988).

In a broader context the question is whether leaders can influence performance outcomes or whether they are constrained by internal and external resource exchanges and the power of institutionalised norms and values. Romanelli and Tushman (1988) argue that, when environments are changing and or performance outcomes are low or declining, leadership's primary task is to intervene. In their discussion of the metamorphosis model they discuss how major changes in environmental conditions or sustained poor performance can disrupt ongoing relationships and lead to major reorientations and radical changes. In their view, leaders have their most profound and important influence on organisational outcomes where pressure for change emerges. Virany, Tushman and Romanelli (1992) observed that the majority of organisational transformations occurred after the succession of a chief executive and this finding has received support from Romanelli and Tushman (1994: 1158) who found that the succession of a chief executive significantly and positively influenced revolutionary transformation.

Clearly pressure for change is evident in turnaround situations and here we find that the chief executive is of considerable importance in determining corporate performance. 'Most turnaround situations require new chief executives, since inadequate top management is the single most important factor leading to decline and stagnation' (Slatter 1984). 'New top managers were required in 73% of Bibeault's (1982) successful turnarounds, by 87% of Slatter's (1984) and by 65% of Grinyer et al.'s (1988). Often managers recruited from outside the organisation are necessary to achieve the changes required for a turnaround, as insiders are reluctant to impose radical changes' (Whittington, 1993: 122).

The implication here is that the chief executive does make a difference and in Grinyer, Mayes and McKiernan's (1988) study of sharpbenders between 1971 and 1979, they record that the chief executive was changed in 65% of cases. In their words he is seen as a major trigger for change; 'he is appointed because he is expected to be a potent force for change' (Grinyer, Mayes and McKiernan 1988: 54 - 55)

The Managing Executive plays a prominent role in the post-acquisition period and, although it is beyond the scope of the research to demonstrate that executive action affects performance outcomes, it is enough to be believe that they may have significant influence on the acquired company.

2.6.1 Insiders versus Outsiders

The turnaround literature shows clearly that the appointment of a new chief executive is strongly associated with change (Slatter, 1984, Bibeault, 1982, Grinyer, Mayes and McKiernan, 1988, Whittington, 1991). This implies that there is a significant difference between the incumbent management and new management in terms of changes that are made to the company.

There is a long running debate about the difference between Insiders and Outsiders. These labels initially applied to differences between managers promoted from within a firm (organisational Insiders), and those brought in from outside (organisational Outsider). Findings at the chief executive level are quite consistent with organisational Outsiders tending to replace more subordinates and making more changes than Insiders.

In a widely cited study of school system superintendents, Carlson (1962) found that organisational Outsiders instituted more organisational changes than organisational Insiders, whom he described as place bound and long tenured. Further studies (Grusky, 1960; Helmich, 1971) support this pattern among chief executive successions in the USA. An important study by Helmich and Brown (1972) tested Grusky's findings in a major study of 208 companies. They found that organisational Outsiders made more executive changes than Insiders and that this pattern persisted even when they controlled for successor type, firm

performance, size, growth and base technology. Helmich's later studies also support his earlier findings.

Gabarro's study (1987), of senior executives in the US taking charge of subsidiary companies, has extended this work by showing that there are clear differences between Industry Outsiders and Industry Insiders in terms of the scope and speed of changes made to their new company. However, Gabarro has found that Industry Insiders make more changes more quickly than Industry Outsiders. In this sense Insiders can be said to take charge more quickly than Outsiders (Gabarro, 1987: 48). Although at first sight this seems contradictory with the earlier studies, we should remember that Industry Insiders will include some organisational Outsiders. Indeed Gabarro argues that most Organisational Outsiders are in fact Industry Insiders.

The thesis will seek to extend the literature on the Insider Outsider dichotomy by examining their actions in an acquisition context. Based upon the consistent findings for other contexts, cited above, we would expect Outsiders to make more changes than Insiders in a corporate acquisition setting.

Proposition 13.: Organisational Outsiders will make more changes than Organisational Insiders

Gabarro's (1987) work, focusing upon an industry boundary for distinguishing between Insiders and Outsiders, has highlighted a major difference with prior literature which used an organisational distinction. This seems to account for his findings appearing to differ from previous studies. To establish at which 'level' of analysis the distinction of Insiders / Outsiders is more closely associated which post-acquisition change, we shall examine various definitions of the Insider Outsider dichotomy.

Proposition 14.:The Outsider Insider distinction will be more pronounced, in terms of the amount of change, for an organisational rather than an industry definition.

2.7 The timing of post-acquisition change

The predominance of the Resource-Based View is a reflection of the dramatic change in the competitive environment of the 1990s, qualifying previous structural approaches, such as Porter's competitive forces framework. As Stalk, Evans and Shulman (1992) observe, the 'war of position' has become a 'war of

movement'. Indeed they emphasise the dynamics of behaviour where rapidity is an important competence.

Most post-acquisition studies have a curiously static quality. Whilst they agree on the importance of timing, at best they just surface the managerial dilemma of whether change should take place rapidly or slowly (Searby, 1969, McCann and Gilkey, 1988, Business International, 1992). Exponents of the rapid approach argue that there is an expectation of change (Searby, 1969: 10-11) and speed will minimise disruption. Those arguing for a more cautious approach, emphasise the value of learning (Mirvis and Marks, 1992) and the costs of making mistakes: by attempting to change too much too fast, companies often 'shoot themselves in the foot' (Yunker, 1983).

Haspeslagh and Jemison's (1991) work which is overtly processual in nature recognises that 'the timing of implementation is important' (Haspeslagh and Jemison, 1991: 49-50). They identify a stage setting phase and for their acquisitions types suggest broad sequences of tasks. For them the issue of timing appears to be most important for Absorption acquisitions where the emphasis of change should be upon the timing of moves (Haspeslagh and Farquhar, 1994: 432). However Haspeslagh and Jemison's (1991) treatment of timing is vague. They do not make it clear if stages overlap, when they start and for how long they last. To an extent there is some information provided with

each case study but there is no sense of whether this is representative of such acquisition types in general.

The timing of changes might well be associated with integration design. Haspeslagh and Jemison (1991) point out the inherent contradiction of resource transfer and autonomy and we could conclude that where this is most intense, namely in Symbiotic acquisitions, change will be difficult and more time consuming. Where the acquired company's autonomy is less, we would expect change to occur more rapidly. We might also expect the speed of change to be linked to the amount of change intended so that high resource transfer would be positively associated with change.

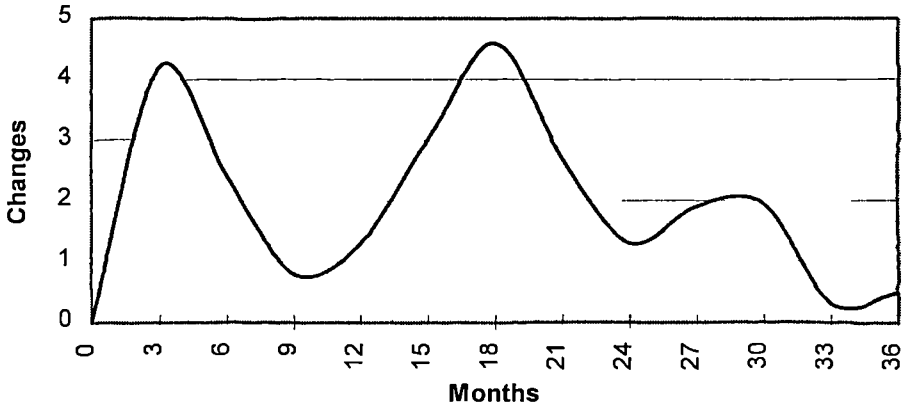
Proposition 15.:The speed with which change is started will be most rapid in Absorption acquisitions, then Holding, Symbiotic and finally Preservation acquisitions.

Apart from two studies discussed below (Bragado, 1992 and Baden - Fuller and Boschetti, 1996), there is no attempt to systematically examine the sequence of change in the post-acquisition period. To assist us in this approach the taking charge provides valuable insights.

2.7.1 Waves of change

Gabarro's study (1985) of 14 management successions in the US brings the importance of chief executives in leading change together with a time dimension. Following on from Kotter's (1982) work, which identifies the important role of the general manager in bringing about change, Gabarro (1985) focuses in particular upon what changes the Managing Executive makes. His analysis shows quite distinct patterns of activity following the appointment of a new manager. Within the taking charge period, which could range from two, to two and half years, Gabarro identified three waves of changes. The first major wave of change occurred after 3 months followed by a lull in activity and then a further and larger wave of change happening towards the middle of the second year. Thereafter the amount of change subsided and largely consisted of fine tuning. His model is shown in figure 2.6

Figure 2.6 Average number of Organisational* changes per three-month period following succession



Source: Gabarro (1987: 16)

* Organisational changes are a composite measure of personnel and structural changes (Gabarro, 1987: 15)

It is worth noting that although Gabarro considers a wide range of variables, (Gabarro, 1987 Appendix C: 177), he confines his analysis to just structural and personnel changes[14]. We feel this is a rather partial view and that a more comprehensive picture of the post-acquisition phase would be of value.

Gabarro has also incorporated some sense of magnitude into his units of change. For instance he takes the view that a change, in a minor structural unit, counts as one unit of change, whereas a change in a major structural unit counts as two units. Such unitisation is not without its difficulties. Nevertheless, Gabarro's (1987) waves of change provide a useful insight into the patterns of change that may be apparent in the post-acquisition phase.

Later papers, such as that of Hambrick and Fukutomi (1991) have also commented that research into executive leadership is static in its treatment of time. They focus their attention upon the temporal features of an executive's tenure in a specific assignment; namely the assignment of chief executive. They also discover 'waves' or 'seasons' of action but their perspective is more long term and thus provides a context for Gabarro's (1987) work. In essence, they view the initial succession as a period of organisational reorientation followed by long periods of incremental change or convergence. In essence, Gabarro's (1987) observation that nearly all actions taken by managers occur within the first two and a half years of succession fits into the reorientation period after

[14] He feels these can be unitised, aggregated and graphed

which the chief executives commitment to his paradigm continues to grow in strength and any changes are just fine tuning.

The importance of Gabarro's (1987) work is that it has established that there are clear waves of activity when a chief executive takes charge and this thesis will seek to establish whether this clear pattern is evident in post-acquisition management in the UK.

Proposition 16.:Patterns of change in the post-acquisition phase will be similar to those for taking charge.

We believe that Gabarro's (1987) work on taking charge will provide useful insights into the process of taking charge of an acquisition. However we should recall that Gabarro's (1987) model is universal in that it does not distinguish between different types of companies whereas we are examining four distinct types of acquisition integration. We may well find therefore that there are significant differences between these integration types in terms of the taking charge process.

It is important to note that there are significant differences between Gabarro's (1987) study and the acquisition context. Firstly, Gabarro has studied primarily division presidents with a few functional and general managers in the US.

Although at face value there may be similarities with executives taking charge of an acquisition, our research is based in the UK, the executives taking charge may not be the equivalent of division presidents, and most importantly, Gabarro's executives are taking charge of previously owned subsidiary companies whereas our executives are managing acquisitions under quite new conditions. This thesis therefore seeks to extend Gabarro's work into the area of taking charge of acquisitions rather than providing a critique of the taking charge process itself.

2.7.2 Speed of change

Whilst the dynamics of change have assumed a new importance, a important component is the speed of change. As Stalk (1989) observes from his study of manufacturing cycles: 'Time has become the overarching measurement of performance'. The effects of time-based advantage are devastating; quite simply, American companies are losing leadership of technology and innovation'. It is reasonable to enquire therefore whether change happens rapidly in an acquisition context as one could see a competitive advantage in being able to acquire a company and quickly realise added value.

Very little has been written on the speed of change in an acquisition context and those studies have tended to be isolated case studies which focus upon the duration of integration rather than when the changes are started. Of those few

articles, one by Bragado (1992), reports the results of a survey by AT Kearney of 100 top executives throughout Europe. Out of 25 listed items, choosing the correct integration speed was in the top four success factors and the executives commented that it was often too fast or too slow. Their findings are interesting in that nationality is a critical factor in acquisition integration speed, with acquisition integration in the US and UK being the most rapid. They also suggest a broad four stage process with indicative timings for each stage depending upon the compatibility between the two companies. Unfortunately as with many consultancy papers, little weight can be attributed to these findings as few details are given in terms of how the different nationalities in their sample distort timings and their measurement items such as culture. There is no consideration of how their four stages might overlap and whether these stages are the same for all nationalities, industries and acquisition types.

Baden - Fuller and Boschetti (1996) use a case study approach to examine integration speeds for two mergers. Again the focus is upon the duration of integration for different functions of the businesses rather than any consideration of when changes were started. As they themselves remark, 'using two case studies cannot allow researchers the confidence that can be gained from a larger more comprehensive study' (Baden - Fuller and Boschetti, 1996: 109). From my own work (Angwin, 1995) there is a preliminary attempt to examine when changes take place in the post-acquisition phase. This survey of acquisitions in the UK between 1991 and 1994 reveals a complex picture of change initiation

which takes place very rapidly indeed. This thesis will seek to build upon these preliminary results and show that relative to Gabarro's work on taking charge of subsidiaries, taking charge of acquisitions is altogether much more rapid.

Proposition 17.:The speed of taking charge of an acquisition is greater than for taking charge of subsidiary companies

Clearly we are concerned with when changes are initiated in the post-acquisition phase rather than tracking the duration of change. Whilst this would be an interesting extension to this research, it is worth reviewing a debate on how long change takes.

We should not forget that we are looking at four distinct types of acquisition integration and we may well find significant differences between them in terms of the speed in which changes are initiated.

Contrary to the processualist's view that change must take a long time, there has been a recent reaction questioning whether all implementation is complicated and difficult and suggesting that it can indeed take place rapidly. As Eccles puts it, 'are we prancing through waves or wading through treacle?' (Eccles, 1994: 15). In an acquisition context the Financial Times (23.08.90) quotes the chief

operating officer of Hanson plc as saying, 'Three months after we arrive (in a newly acquired company) there must be significant changes; after that, newness is a wasting asset' (Eccles, 1994: 26). Eccles suggests that rapid change will occur under crisis where there is a clear need for dramatic action. This is not to deny the difficulty of change but in crisis conditions such as turnarounds, rapid change is not only feasible but in many cases critical to the organisation's very survival (Slatter, 1984)

Whilst acquired companies often face a less bleak future, they are also often subject to substantial change and we may draw useful comparisons between the two activities with changes in the turnaround literature informing our understanding of change in the post-acquisition phase. It is worth noting that turnaround studies list a substantial number of factors important in a variety of situations, and also indicate a clear sense of priority with which changes are implemented, but there is no sense of the timing of changes. A comparison of speeds of change between turnarounds and acquisitions is beyond the scope of this thesis.

2.8 Conclusion

The literature on the post-acquisition phase is largely fragmented. Haspeslagh and Jemison (1991) however, stand out in their attempt to provide a unifying framework for understanding the post-acquisition phase. Nevertheless, their conceptualisation of an acquisition typology has not been tested, and their processual perspective has tended to understate the actual changes that take place in the post-acquisition phase.

This thesis will extend Haspeslagh and Jemison's (1991) work by applying it to the population of acquisitions in the UK. We shall do this in Chapter four and consider whether their concentration upon value creating acquisitions in particular is warranted. This will provide empirical evidence in support of, or against, the theory that acquisitions experiencing resource transfer will be more successful than those which do not. From this examination we shall be able to comment upon the value of the Resource based view in an acquisition context.

Post acquisition change has tended to be handled in a partial way. We will add to the literature by adopting a more comprehensive view of post-acquisition change and shall draw upon the related turnaround literature for suggestions of important variables to consideration. We shall adopt Haspeslagh and Jemison's (1991) contingency framework as a useful typology. However we recognise its weaknesses of being untested and concentrating upon the impediments and

facilitators of change at the expense of actual post-acquisition changes. By concentrating upon the changes that actually take place in each acquisition type, we will be able to test the robustness of their post-acquisition typology and so extend their work. The nature and volume of these changes, by acquisition type, will be examined in Chapter five, and their timing will be discussed in Chapter eight.

Acquisitions are an example of substantial strategic change in the acquired company. The related turnaround literature points to the critical importance of the managing executive in such situations and this is emphasised in the crisis literature. By adopting a managing executive focus, we intend to build upon the well established Insider Outsider debate which suggests significantly different approaches to handling change. We shall extend this debate, in Chapter seven, by examining the Insider Outsider dichotomy in a post-acquisition arena.

This thesis follows in the general trend in strategic management by concentrating upon the implementation and process issues of the post-acquisition phase. However the majority of work in this area has derived from a processual school which focuses upon the impediments and facilitators of change rather than the changes themselves and also assumes that change is always an immensely complex and protracted process. This view point has stemmed from work on companies in mature, stable industries. Where industries are in much faster moving, dynamic and fluid environments, change

is more frequent needs to occur more rapidly. By concentrating upon acquisitions, we are focusing upon crisis situations with radical change. To an extent then, this thesis may redress the balance in strategic management towards researching rapid change.

3. Methodology and data

3.1 Introduction

This introduction to the methodology and data chapter will show how we have structured our discussion of our choice of methodology and the issues that arose in carrying out the field research.

Section 3.2 observes that the dominant methodologies in the acquisition literature show a certain polarity of approaches between in-depth case studies and large scale surveys which we attribute to the disciplines from which the enquiries have originated. In Section 3.3 we suggest that such polarised methods have limitations and that a strong case has been made in the social sciences for a hybrid approach to overcome these failings. To the best of our knowledge the explicit application of a hybrid approach has yet to be found in the field of acquisitions. Section 3.4 then explains how this method has been operationalised in terms of a postal survey and complementary interviews.

Section 3.5 shows how the questionnaire was designed and piloted and Section 3.6 discusses the statistical tests used in analysing the return data. The criteria for selecting interviewees and analysing the transcripts are reviewed in Section 3.7.

Section 3.8 deals with the actual data and puts it into the context of acquisitions in the UK from 1987 - 1996. There are a number of potentially serious problems associated with publicly available data which can lead to erroneous perceptions of actual acquisition activity. These are discussed and lead into a review of the actual response rate and the issue of non-response bias.

3.2 Methods used in acquisition studies

The literature review has shown that there are a large number of disciplines and perspectives with bearing upon the acquisition domain. With each of these disciplines tends to come a preferred methodology, which leads to striking differences in approach. For instance, performance studies prefer cross-sectional surveys with large numbers of acquisitions, such as Franks and Harris (1989) study of 1,445 targets, Jarrell and Poulsen (1989) study of 526 firms. In comparison, studies wishing to assess the impact of mergers on employees prefer the use of the in-depth case, such as Mirvis and Marks (1992) examining just one merger in great detail, or comparing two cases such as Larsson (1990) on integration, or Buono and Bowditch (1989) on culture clash.

Cross-sectional surveys, although widely used, have been subject to criticism. Whilst an appropriate means of assessing probabilistic relationships of certain features over the widest possible population of observations, they are incapable of dealing with complex, conjunctural causal arguments (Ragin, 1989: 69). This is certainly apparent in the context of acquisitions, where the complexity of the phenomena has defied meaningful explanation at the aggregate level. For instance the debate over whether relatedness has a positive affect on performance has not been resolved despite many substantial surveys. The result has been for smaller scale surveys looking at more tightly defined issues in a contingency approach.

In-depth case studies have seemed to promise to overcome the limitations of cross-sectional surveys as they are well suited to identifying invariant patterns in small sets of cases. They are very sensitive to human agency and social processes in general (the historical process) whereas the variable approach lends itself to more structural explanations. Whilst in-depth case studies can capture the richness of an acquisition and are particularly effective in a longitudinal context for studying change, they have their own limitations. They remain highly specific in nature and lack generalisability.

In response to this criticism there has appears to be a move towards the use of greater numbers of cases (Haspeslagh and Jemison, 1991, use seven cases) and for research in general this may be a current driver for the rise in team research. In addition there have been secondary level studies which amalgamate large numbers of primary studies to achieve some sort of generalizability or case synthesis from a rich bank of cases (see Larsson, 1989). Whilst this seems an excellent idea in principle, these attempts have been largely inhibited by lack of compatibility between individual case studies. The difficulties of meta-analysis are fully explored in Larsson's (1989) case survey of synergy potentials.

To increase the number of cases under scrutiny, compromises have had to be made. One sacrifice has tended to be the longitudinal comprehensiveness of research as a series of less demanding cross-sectional approaches over time have become more evident. Haspeslagh and Jemison (1991) may be cited as an

example of various longitudinal cases by different authors being coalesced and further case research being conducted by cross-sectional interviewing at different time periods. Another sacrifice tends to be the concentration on fewer numbers of subjects within a case thus reducing the richness of the study.

Whilst there are variations on the theme above, until relatively recently, the majority of studies could be readily placed within the categories of cross-sectional surveys or in-depth case studies. However with the increasing appreciation of the complexity of the area under study, there is now a need for more sophisticated hybrid methods. Indeed, Ragin (1989) observes that it would now seem a logical development for the combination of these two methods and cites a number of examples of combined strategies[1].

The case for a hybrid methodology will be examined below but we should always bear in mind that the method is subservient to the enquiry. 'Methodology is the slave and not the master of what we do. The big themes are what matter' (Pettigrew, 1996).

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[1] Ragin (1989) cites Piage's (1975) 'Agrarian Revolution: Social Movement and export Agriculture in the Underdeveloped World' where interpretive case studies are used to support the findings of quantitative investigations. Four types of agrarian system are identified and one case is used to illustrate each type. The cases provide a degree of assurance that the correlations observed are in some sense real. Ragin (1989) also cites a study by Stephens (1979) which we review in section 3.3.2 of our text.

3.3 The case for a hybrid method

Whilst the adoption of a hybrid method appears to be intuitively attractive, we should first examine the apparent barrier to its adoption. Underlying the strong fundamental adherence to cross-sectional surveys or in-depth case studies is a fierce philosophical debate. We will sketch out this debate in the following sub-section and seek to show that methodology is becoming sufficiently divorced from its philosophical underpinnings to allow researchers to adopt hybrid approaches.

3.3.1 The philosophical dimension

At the philosophical level there is a fierce debate about the relative merits of positivism which has been linked to quantitative method and phenomenology which has been linked to qualitative methodology.

Essentially positivism is about the scientific method; that the world is external and objective, that the observer is independent and that science is value-free. In this **positivist paradigm** the researcher should focus on the facts, look for causality and fundamental laws, reduce phenomena to simplest elements, formulate hypotheses and then test them. The methods used in this paradigm concentrate on operationalising concepts so they can be measured and taking large samples. In essence, surveys fit this positivist approach[2].

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[2] This is not to say that all quantitative approaches are positivist

Phenomenology on the other hand takes the view that 'the world and 'reality' are not objective and exterior, but that they are socially constructed and given meaning by people' (Husserl, 1946, in Easterby-Smith, Thorpe and Lowe, 1991: 24). The social scientist therefore should not gather facts and measure how often certain patterns occur, but appreciate the different constructions and meanings that people place upon their experience. In this **phenomenological paradigm** the world is socially constructed, the observer is part of what is observed and science is driven by human interests. The researcher should focus on meanings, try to understand what is happening, look at the totality of each situation and develop ideas through induction from data. The methods used tend towards the use of multiple methods to establish different views of phenomena and the use of small samples which can be investigated in-depth or over time.

The purpose of outlining the two philosophies is that at the philosophical level they are very distinct and examine quite different questions; the positivists or functionalist paradigm emphasises systematic procedures to search for regularities in the social world and for causal relationships among the variables which make up that world. The phenonmenologists or interpretive approach argues that the social world can only be understood from the perspective of its participants and that to understand the social world the researcher needs to obtain first hand knowledge of the subject under investigation (Burrell and Morgan, 1979).

In the words of Burrell and Morgan (1979), these two paradigms 'reflect alternative realities and mutually exclusive ways of viewing the world'. This polarity has resulted in a fierce debate and accounts for many studies adopting one extreme position or the other.

More recently however, researchers have tended to be less extreme in their use of method and have tried to combine the two approaches in a hybrid methodology. This has caused Bryman (1989) amongst others to question the link between epistemology and method, as methods now appear more autonomous than was first realised. On this basis it would seem that 'method does not bring a trail of epistemological presuppositions in their wake' (Bryman, 1989: 253). 'Arguments about epistemological distinctiveness of qualitative and quantitative research should not be a barrier to the fusion of methods' (Bryman, 1989: 254). A blend of methods offers considerable advantages.

3.3.2 Advocates of a hybrid methodology

During the quantitative qualitative debate, many scholars focused upon the short comings and advantages of each approach. However it soon became clear that each paradigm appeared to offer something to the other. The arguments then tended to move towards convincing purists to adopt elements of 'rival' methods. For instance Mintzberg (1979) points out the importance of adding a qualitative dimension to quantitative research as this is more fully able to deal with the complexities of social research.

Mintzberg (1979: 587) suggests that 'while systematic data create the foundation for our theories, it is the anecdotal data that enables us to do the building'. 'We uncover all kinds of relationships in our "hard" data, but it is only through the use of this "soft" data that we are able to "explain" them'. Mintzberg calls for "direct research" which recognises the complexity of organisations. In direct research the researcher gets out into the field to 'measure many elements in real organisational terms, supported by anecdote, instead of analysing a pair of variables in perceptual terms from a distance'. This approach allows the researcher to uncover additional issues and to understand the processes at work. Mintzberg cites an interesting example of this happening when a doctoral student in France entered a French company to document its long range planning procedures to find the 'right way to plan'. After a short time in the company he came to realise that planning really served as a tool by which top management centralised power. This discovery required peripheral vision and creativity and would not have been uncovered by a variable-oriented approach. This example illustrates Mintzberg's point that a variable-oriented approach can be severely deficient as it will tend to miss the issues of intuition and personality which are 'the very lifeblood of the organisation itself'.

Another example of a researcher who came to realise the value of a more qualitative approach is Piore's (1979) enquiry into the effects of factory floor manning levels. He started from formal econometric bases intending to infer quantitative estimates about the parameters of behaviour on the basis of

individual observations. He developed a detailed questionnaire in which the answers could be easily coded but, in the process of personally administering the questionnaire, became aware that the issue he was investigating was merely a facet of a much more important underlying process. His economic issue of manning table usage was only a rough guide to factory layout and cost, and actual manning was arrived at experimentally. Manning table usage was much more a factor of social interactions and adjustments than economic factors. Piore therefore used open-ended interviews and participant observation to discover how economic participants think about the world.

The advances in research that sprang from a mixed methodology gave rise to a distinct tradition of using multiple methods. This tradition has a number of names such as convergent methodology, multimethod multitrait, convergent validation or triangulation (Jick, 1979: 602). This methodology clearly views qualitative and quantitative methods as complementary and that the mixing of methods is desirable given the strengths and weaknesses found in single method designs.

These earlier studies suggest that there is one right approach to a problem and this thinking is rooted in the idea of the incompatibility of epistemologies. There were some however who felt that qualitative and quantitative methodologies could be complementary. For example, in triangulation there is a 'combination of methodologies in the study of the same phenomenon' (Denzin, 1978 in Jick, 1979: 602). The aim is that 'more than one method should be used in the

validation process to ensure that the variance reflected that of the trait and not of the method' (Jick, 1979: 602). For example the effectiveness of a leader may be studied by interviewing the leader, observing his behaviour and evaluating performance records. Through the use of three distinct methods a convergent picture can be produced. Triangulation can also capture a more holistic and contextual portrayal of the units under study. The use of multiple measures may uncover some unique variance which otherwise may have been neglected by single methods. In this role qualitative methods play an especially prominent part in shedding light upon quantitative data.

Whilst there are limitations[3] with the triangulation method, it is an example of several methods working together. Harrigan (1983) has also helped to diffuse the tension that built up over this issue by showing how the debate has clearly moved away from epistemology towards methodology. She characterises the qualitative quantitative dimensions as 'fine-grained' and 'coarse grained' methods existing on the same continuum. By looking just at methods it is easy for Harrigan (1983) to envisage a 'medium-grained' method which combines the generalisability of cross-grained methods with the detail of fine grained methods. However her justification is that neither extreme is adequate for researching business strategy as the coarse grained studies do not incorporate intra-industry competitive nuances well and fine grained studies may not be

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[3] Replication is exceedingly difficult if not impossible with a mixed method package. There is also the problem of one method being stronger or more appropriate to the task. If each method is not represented in a significant way then the purpose of triangulation is subverted. There is also a basic assumption that the weakness in each single method will be compensated by the counter-balancing strengths of another (Jick, 1979).

externally valid. In suggesting hybrid methodology, Harrigan (1983) suggests multiple sites, multiple data sources and intricate sample designs. In her studies (Harrigan, 1980, 1983), she used industry potentials variables to stratify industries for field interviews[4].

With the distancing of method from epistemology, there has been a proliferation of methods and many typologies. A recent one by Cresswell (1994) is as follows;

1. Quantitative
2. Qualitative
3. Two phase design
4. Dominant - less dominant design
5. Mixed method

This typology explicitly acknowledges that there is often a sequence in which each method might be used and also that the emphasis on each may vary. For instance in the Dominant - less dominant design we might have the quantitative testing of a theory followed by a small set of qualitative interviews. The expectation here is that we can elaborate, enhance or illustrate results by using another method. Cresswell (1994) gives as an example of this design, a

[4] Harrigan believes that this method benefits from generalizability (I assume because she is interviewing groups of companies within each industry she has selected) and replicability (she appears to have achieved this at the macro level) although see footnote 3.

quantitative survey in Africa which tried to correlate the ownership of fridges with the incidence of infant diarrhoea. No correlation was found but when interviewing (qualitative) took place, it was discovered that those families owning fridges used them to make ice to supplement family income and not for the storage of milk!

There are more promising examples of hybrid methodology where the cross-sectional survey and detailed cases complement each other rather than expose each others weakness. Stephens (1979, cited in Ragin, 1989) 'The transition from capitalism to socialism' embodies coarse national data analysis and a detailed case analysis. The distinctive feature here is that this study is more integrative as he moves back and forth between types of analysis. The statistical analysis highlights structural issues without showing any concrete mechanism or human agency whilst the cases give attention to the historical process.

Miles and Huberman (1994) take the idea of two stage models further with suggestions of several stage models leading to continuous interaction with one method continuously informing and extending the other.

The complexity of combining strategies in the way Miles and Huberman (1994) suggests presents formidable problems and one wonders with multiple case studies whether one can really get away with small numbers. A more radical concept to overcome some of these problems is provided by Ragin (1989) who suggests a synthetic strategy based upon Boolean algebra which allows large

numbers of cases and embodies a strict comparative logic of different conditions. This is an attractive notion but, for the purposes of the thesis, takes us away from our main focus.

In summary, hybrid methods have begun to receive widespread acceptance, not withstanding philosophical 'barriers'. They serve to overcome the traditional limitations of case based and survey oriented methods by allowing one method to inform another, discovering paradox or contradiction and extending enquiries. In particular hybrid methods overcome common method variance and this can only lead to more rigorously verified research and much 'richer' studies.

3.4 Research Design

3.4.1 A two-phase design

The hybrid methodology is still relatively new in the acquisition field with researchers still expanding the boundaries of the single method rather than openly adopting a mix. In particular, the post-acquisition phase has been largely researched by in-depth case studies which suffer from the criticisms mentioned above, namely that they are very context specific and non-generalizable.

Mindful of Pettigrew's (1996) warning at the beginning of this chapter, we should consider the research question we wish to answer. We are predominantly interested to know what changes take place in acquired companies in the UK after acquisition. Yin's (1994) recommendation for research questions which

focus upon 'what' and 'how much' is to adopt the survey method. This will enable us to form a generalised picture of what changes take place in the post-acquisition phase of acquisitions in the UK.

A secondary consideration for the research is when the changes are initiated and the assumption here is that a survey can capture such information adequately. Interestingly Yin (1994) does not consider 'when' in his recommendations. An accurate 'clock time' based picture would be best gathered by longitudinal case based research. There are two problems with this suggestion. The first as mentioned above is the generalisability of the results from one or two cases[5]. Secondly, from a practical point of view, it is virtually impossible to gain access to an acquired company immediately after acquisition. Indeed most longitudinal studies tend to take place some time after completion. This can have serious implications for the depiction of change as we believe the majority of changes are initiated very rapidly indeed and so not perceived directly. This may mean that important factors are overlooked and is part of a general problem of retrospection (see next paragraph). Perhaps for this reason studies to date have concentrated on the duration of change rather than when it started.

By surveying respondents some time after the event we are clearly collecting 'perceptions of time' rather than 'measured time' which would be possible in a longitudinal method. Whilst the longitudinal method might be superior in the

[5] This problem could be partially tackled by using separate surveys over time.

isolated case, our primary objective is to establish a picture for post-acquisition change in general. We therefore felt that on this basis, advantages of the survey outweigh the benefits of the longitudinal approach. Consensus about the timing of key changes, although retrospective perceptions, are arguably more meaningful to and about executives than recorded time[6].

Haspeslagh and Jemison (1991) remark that the nature of knowledge about the acquisition process is still low on the knowledge tree' and so their questions were exploratory. This lack of academic cohesion has often been the rationale for the use of in-depth case studies. We felt that these cases and related literatures now highlight many issues which would benefit from testing by survey.

The survey method on its own does have limitations, as pointed out above, in its inability to take into account human agency. To enrich the findings of our survey we carried out a number of targeted interviews (of extreme cases) to add explanation and nuance to our findings. In crude terms the survey will supply the 'what' and the interviews will supply the 'why'. In Cresswell's (1994) terms, the survey represents the dominant method with interviews as supplementary. However this depiction understates the degree of iteration between the two methods as each serves to inform and reinforce the other.

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[6] If we adopt the view that executive perceptions of time are unreliable, we must question their reliability on other issues as well, which would force us towards the observer role with only our observations as 'true'. Not only would this invalidate a great deal of research but also would not accord with respondent's 'informed' worlds. In other words, why single out time as an unreliable variable?

3.4.2 Use of Key informants

Our focus of attention both for the questionnaire survey and interviews is the executive who manages the acquired company (hereafter referred to as 'Managing Executive'). As we are adopting a strategic view of change in the post-acquisition phase and the Managing Executive is responsible for that change and indeed part of his job is to articulate events to group management and outside stakeholders, it seems reasonable to focus upon him as a key informant. In particular, in the case of post-acquisition management, the Managing Executive occupies a pivotal position between acquirer and acquiree. One of Haspeslagh and Jemison's (1991) main findings is the key importance of the interface or 'gatekeeper', between acquired and acquiring companies. In their view this is the key to unlocking value in the acquired company; 'gatekeepers are vital' (Haspeslagh and Jemison, 1991: 156). In our view the Managing Executive is 'squarely in the middle' and in a prime position to observe change to the acquired company. As Schweiger and Walsh (1990) observe, the contact between merging organisations is greatest at the top.

Key informant research is often seen in strategic management studies, such as Datta's (1991) survey of senior executives in 173 acquisitions to establish the impact of organisational differences on post-acquisition performance; Chatterjee, Lubatkin, Schweiger and Weber's (1992) survey of the top managers in 198 acquired firms to establish a link between cultural differences between top executive and shareholder gains; and Very, Lubatkin, Calori and Veiga's (1997) survey of key informants in 396 recently acquired European companies

to link relative standing and performance. The advantage of the key informant approach is that it is an economical approach to gaining 'global data' on an organisation (Bryman, 1989).

There are limitations and problems with all methods. Clearly we are attempting to make claims about change in acquired companies and feel that a key informant approach is appropriate. Nevertheless, others would suggest that this lacks perspective. Bryman (1989: 49) has looked at the issue of using other individuals to complement key informants and concludes these claims tend to be exaggerated as later writers have suggested equivalence of measures for researchers using 'two approaches to measurement (which) were not designed to be equivalent' (Bryman, 1989: 49). In particular, Bryman (1989) suggests that key informants are appropriate for strategic issues 'since it is usually a company's overt strategy, as formulated by senior executives that is the object of attention' (Bryman, 1989: 48).

3.5 The questionnaire survey

The main intention of the survey was to examine three main themes in the post-acquisition phase. These themes were to extend the work of Haspeslagh and Jemison (1991) into a UK context, to examine whether different types of senior

executive make a difference, and to examine the timing of changes in the taking-charge process.

The survey consisted of 197 questions contained within 42 multiple questions in a 12 page document (see Appendix 3.1). The questionnaire was organised into seven parts:

Section A. General information about the respondent's position [8 questions]

Section B. Information about the acquired company's pre-acquisition health, the reasons for the acquisition and perceptions of the success of the deal. [18 questions]

Section C. The relationship between the acquired company and the new parent in terms of Haspeslagh and Jemison's (1991) contingency framework and Goold and Campbell's (1987) strategic management styles. [5 questions]

Section D. Details about the changes made in the acquired company. These questions were grouped into six broad functions and a miscellaneous category. [150 questions]

Section E. The Managing Executive's management style in a post-acquisition context. [7 questions]

Section F. The new corporate structure. [5 questions]

Section G. The Managing Executive's background and experience. [4 questions]

The majority of the questionnaire consisted of enquiring about functional change (see section 3.5.3 for further discussion). To investigate whether respondents perceived whether changes had taken place, a series of closed questions were employed for all change variables. To assess when the change was perceived to have started, the respondent was then asked to indicate this in months.

Most of the other questions in the survey, such as assessing the level of resource transfer, level of autonomy, perceptions of success, relied upon a 5 point Likert scale. This scale was chosen to give the respondent an opportunity to indicate a degree of preference. A 5 point scale was chosen rather than a 7 point as the absolute number of respondents was likely to be quite small and so the extra level of detail would not be amenable to analysis. Indeed, Oppenheim (1992: 195) suggested that more complex scoring methods possess no advantage. An uneven number of points was chosen as it was felt that respondents must be allowed to adopt a neutral stance. With an even number they would be forced into siding and this could lead to a distortion in results. Unfortunately this did lead to a minor problem in ascribing our respondents to a specific acquisition style based upon the Haspeslagh and Jemison (1991) contingency framework. With an autonomy score of three, respondents would lie on the border of two styles[7]. In terms of locating respondents upon Haspeslagh and Jemison's (1991)

[7] Fortunately this was much less of an issue for the resource transfer axis as the use of three variables meant that an exact score of three, no matter how calculated, was unlikely to result in many cases falling precisely upon the borderline.

matrix, we initially excluded borderline cases to achieve pure respondents for each post-acquisition type. As the number of borderline cases is significant, we then randomly assigned those cases between acquisition types[8]. There is also an argument that there may be a positive bias on the autonomy scale[9]. For this reason, we also aggregated the borderline cases with low autonomy cases for comparison with high autonomy cases[10].

Where the analysis departed from post-acquisition types, and focused upon the underlying dimensions of the matrix, correlations were carried out with all cases.

The remaining five questions were open as the enquiry was exploratory in nature and any suggested responses would have diminished the quality of answers. The number of open questions was kept to a minimum due to the difficulties that can, and indeed in one question did, arise with coding.

3.5.1 Self assessment

The strategic management literature is replete with examples of self-administered questionnaires being used to ascertain the perceptions of key

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[8] In a small number of instances where there are insufficient pure observations for an acquisition type, particularly in the Symbiotic category, randomly assigned cases have been used. This has been noted in the text.

[9] I am grateful to Professor Peter Grinyer and Dr. David Faulkner (1998) for this observation.

[10] Such incorporation of the mid-point is recommended in Jokoda et al. (1951)

informants, frequently top management. For instance, in the Strategic Management Journal alone, there are many articles targeting CEOs such as Walsh's (1988) study on top management turnover, Norburn's (1989) study on the chief executive as a breed apart, Datta's (1991) on organisational fit and acquisition performance, Johnson, Hoskisson and Hitt's (1993) on the involvement of board's of directors involvement in restructuring, and more recently Powell and Dent-Micallef (1997) on information technology as competitive advantage. The prevalence of this method of data gathering gives credence to its efficiency and value. However, the following constraints / limits are often raised and ought to be borne in mind in assessing our results.

i) There is a practical issue of whether the questionnaire was filled in by the intended recipient. Whilst we cannot verify this absolutely, we can say that every respondent had been telephoned and appeared genuinely interested in the exercise. There were more personal questions towards the end of the questionnaire which would have been difficult to complete without the intended respondent's knowledge, and in all our interviews, representing over quarter of our respondents, all had clearly filled in the questionnaires themselves. This is not to rule out that questionnaire could have been completed by an aide, but the likelihood is small.

ii) As the questionnaire post-dates the acquisition period under consideration, post-hoc rationalisation[11] may be a problem in terms of the way in which executives perceive post-acquisition change. In particular, self perception may be bolstered[12].

iii) There may also be an issue of self-selection in terms of the success of the acquisition. It may be that executives associated with successful acquisitions are more likely to respond to questionnaires. Our questionnaire attempted to avoid this issue by purposely focusing upon post-acquisition changes rather than success issues. Potential success bias might also be mitigated by successful executives not feeling the need to fill in questionnaires if they believe they already master the subject whilst less successful executives may perceive the need to learn.

iv) There is also the issue of survivor bias both in terms of surviving managing executives and surviving acquisitions. It may be that where managing

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[11] The post-hoc rationalisation problem is particularly significant when examining the motives leading up to acquisition as the subsequent managing executive of the acquired company may not have been involved. Although 84% of our questionnaire respondents were heavily involved in negotiating the deal, we have down played the data collected by questionnaire on this issue. In the interviews we have largely avoided the problem by ensuring that interviewees had been involved in the negotiations. This was the case for 18 out of the 20 interviews.

[12] Issues such as post-hoc rationalisation could only be removed by a longitudinal approach which was deemed to be infeasible for studying a population of acquisitions. In terms of the bolstering of self perception, other executives might have been surveyed to reduce this influence. However, we have experimented with sending multiple questionnaires to acquired companies, but in all cases at most only received one in return. For this reason we felt targeting the key informant would be the best way forward. A further check upon self perception might have been supporting in-company documents. However, this again was perceived as impracticable for a survey.

executives tended to stay on, they may be more able to answer the questionnaire than new executives brought in[13]. This might affect the distribution of responses between acquisition types where incumbent managing executives tend to remain in post and other acquisition types where new executives are brought in. The questionnaire however was sent out at least two and a half years after acquisition, so this issue may actually be muted in effect, as the taking charge literature (Gabarro, 1987) suggests that the work of taking charge is complete by this time. In terms of the actual number of acquisitions to survey, a small percentage of acquisitions were acquired to be terminated and some failed very some after acquisition. For this reason there will be a degree of survivor bias.

v) A further issue may be the interpretation made by the respondents of the questions. Whilst the language of the questions has common but loose currency amongst managers, where formal measures do not exist in organisations, for instance in terms of 'extent of autonomy', there may be an issue of interpretation.

3.5.2 Unit of analysis

The units of analysis are the changes that took place in the acquired company post-acquisition. Clearly there is an issue of what constitutes a change. In terms of 'what' changes we chose to examine, our items of change were derived from

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[13] There is also the issue in acquisition studies, of whether the respondent was really aware of the purpose of the acquisition. In our case, 84% of respondents had been heavily involved in acquisition negotiations.

the post-acquisition literature and the related turnaround and taking-charge literatures (see section 3.5.2 below).

The survey is about uncovering Managing Executives perceptions of change in the post-acquisition phase. We are relying upon their perception of whether a change has taken place and at what point this change began. It should be emphasised that we are concerned about when change starts and we are not looking at its duration.

3.5.3 Relating survey questions to themes

The full questionnaire is contained in Appendix 3.1. Rather than review the questions in the order they appeared in the questionnaire, we shall examine the questions from the perspective of the three main themes of our research.

3.5.3.1 Theme 1: Distribution of acquisition activity and success

To apply and extend Haspeslagh and Jemison's (1991: 145) contingency framework we needed to reconstruct their matrix. This has been achieved by focusing upon its constituent axes. These are a 'need for organisational autonomy' axis and a 'need for resource transfer' axis. In the previous chapter (Chapter 2:10), it has already suggested that the 'need for' concept, or the operationalisation of a dynamic, is unnecessary and can be omitted as there is a

high degree of coincidence in integration style throughout the acquisition process for successful acquisitions (Haspeslagh and Farquhar, 1994: 435).

- The Organisational autonomy axis

Datta and Grant (1990) in their study of 129 acquisitions in the US manufacturing sector, have examined the issue of autonomy measurement and contrasted 18 items derived from Vancil's (1979) work with respondent's perception of autonomy, based on one question with a 5 point Likert scale. They found that Vancil's 18 items of autonomy were highly correlated (r=0.846, p .001) with the respondent's perception of autonomy (Datta and Grant 1990: 35). Although autonomy may be a multi-dimensional construct, Datta and Grant's (1990) seems to suggest that, in practice, it is highly correlated and can be assessed with one question. On this basis we felt comfortable with assessing the level of autonomy with question 15; 'To what extent do you feel that the acquired company is autonomous from the parent?'

- The Strategic interdependence axis

The Strategic interdependence concept is based upon the notion of capability transfer (Haspeslagh and Jemison, 1991:139-140). Haspeslagh and Jemison (1991:139-140) operationalise this in terms of four categories; resource sharing, transfer of functional skills, transfer of general management capability and combination benefits. We employed the first three of Haspeslagh and Jemison's four categories as these specifically relate to the concept of capability transfer. We rejected Haspeslagh and Jemison's fourth category as this does not involve

capability transfer; '*combination benefits* are available automatically as a result of the combination and are not related to capability transfer' (Haspeslagh and Jemison, 1991: 141). These benefits would include items such as extra borrowing capacity and added purchasing power. The fourth category was therefore excluded as it would not have an impact upon the acquired company in terms of change and would not add to our enquiry and indeed might show a greater degree of interdependence than was actually warranted.

We adopted the other three categories in a slightly altered form (see questions 12 - 14) partly to operationalise them in terms of making sense to the respondent (question 12) and also to home in on the core of Haspeslagh and Jemison's intention. In question 12 we ask 'To what extent there has been a transfer of physical assets' which is to enquire after the 'Resource sharing' item which Haspeslagh and Jemison (1991:140) define as 'the combination and rationalisation of operating assets'[14].

Haspeslagh and Jemison (1991:140) second category is the <u>transfer of functional skills</u> about which they say the following, 'Skills reside in individuals, groups of people and their procedures and practices, not in assets. They can be transferred only as people are moved across organisational boundaries or when information, knowledge and know-how are shared' (Haspeslagh and Jemison 1991:140). We

[14] Asset transfer was used as it was felt managing executives might identify more readily with this than the concept of resource sharing, and in terms of surfacing the issue of the 'combination and rationalisation of operating assets'. However, whilst asset transfer might indicate the combination of assets, it does tend to be one way, unlike 'sharing'.

decided to separate the issues of people transfer and knowledge transfer which are key to this category and impinge upon their third category.

Their third category is the transfer of general management capability which they see as 'partly through direct substantive involvement in general management decisions', or the 'instalment and use of systems, controls, budgets and plans' (Haspeslagh and Jemison, 1991:141). We felt this was also a part of knowledge transfer and therefore decided to uncover these issues with question 13, 'To what extent has there been a transfer of knowledge or information' and question 14, 'To what extent has there been a transfer of personnel'.

This adaptation and interpretation changes the grouping of their three measures but as an aggregate measure of resource transfer, these items, which seek to home in on the same issues, should lead to similar results.

To create an aggregate measure of resource transfer, or strategic inter-dependence, we referred to Haspeslagh and Jemison (1991) who were very vague on the issue; 'The strategic interdependence variable was operationalised as varying in density depending upon whether the main strategic capability transfer involved 'one of our four items'' (Haspeslagh and Jemison, 1991: 287). In other words, whilst they recognise that 'any individual acquisition may involve benefits from several of these sources', 'it is possible, and advisable, to recognise one type of capability transfer as the *dominant* source of initial value creation'(Haspeslagh and Jemison, 1991: 141-2). To an extent we feel that

concentrating upon just one source of benefit is a refinement and for the purposes of the survey it seems reasonable to suggest that firms exhibiting high levels of resource transfer on all three items are more interdependent than those who exhibit high levels on fewer items. Indeed in a later article, Haspeslagh and Farquhar (1994: 429) deal with this issue by contrasting acquisitions with low and high densities of interdependence. We therefore decided to aggregate the scores for each measure and average the result as a 'strong form' of strategic inter-dependence. We also created a 'weak form' of strategic interdependence with any one measure exhibiting a high score (see chapter 4.2.1).

By using questions 12 - 14 together with question 15 we can therefore locate our respondents upon the Haspeslagh and Jemison matrix in weak and strong forms. This exercise will identify the distribution of acquisitions in the UK within their typology.

- **Success measurement**

Measuring success was not a major objective or theme of the questionnaire survey or this thesis. However we thought it would be interesting to gain overall perceptions of success for the current thesis and also to lay some foundations for examining this issue in the future.

Overall perceptions of success are used extensively in the strategic management and mergers and acquisition literature (Kitching, 1967 and 1974, Dess and Robinson, 1984, Jemison and Sitkin, 1986, Dess, 1987, Hunt et al., 1986, Hunt,

1990). Particularly in the mergers and acquisition context, there are significant difficulties and problems associated with 'objective' measures in measuring post-acquisition performance (Kitching, 1967, Porter, 1987), as the integration of accounting systems obscures and distorts the acquired company's figures and operational changes can be so substantial as to completely alter the nature of the acquired company (Kitching, 1984: 130). To overcome limitations such as these, Dess and Robinson (1984) argue for considered management judgement as a reasonable alternative to 'objective' measurement.

Other than perceptions of overall success we also used items common in the mergers and acquisition literature such as recovering cost of capital, group profitability, achieving strategic objectives (Dess and Robinson, 1984), realising synergies (Kitching, 1967) and achieving integration (Datta, 1991).

The resulting list of 11 items, which is question 9 in our questionnaire, measured on a 5 point Likert scale, was not intended to become a composite measure as clearly some items would have more relevance to some acquisitions than others.

We shall be looking at these perceptual measures of success in terms of the acquisition integration types and also the constructs of the Haspeslagh and Jemison framework.

3.5.3.2 Theme 2: Post-acquisition change

Despite the wealth of post-acquisition literature, there is little systematic coverage of the changes that take place in the post-acquisition period. Table 2.7 in chapter two has shown that the few often rather dated studies which attempt a comprehensive review of change are still rather patchy. Faced with the problem of no template to defer to, we adopted a functional approach as most organisations are so divided and such a format for our questionnaire would strike a chord with most respondents. It is worth observing that later researchers in this area have arrived at a similar conclusion (see Baden - Fuller and Boschetti, 1996: 96).

In terms of the changes to examine within each functional area, we observed in section 2.5.5 in chapter 2 that the acquisition literature is very fragmented in nature. As a consequence we have looked further afield for suggestions of change. In particular we have drawn heavily upon the turnaround literature with emphasis upon the "Sharpbenders" (1988) study. Appendix 3.2 shows the questions with their origin as they appeared in their functional groupings in the questionnaire. The following paragraphs however dis-aggregate those groups into the Sharpbenders variables referred to above.

- Sharpbenders variables

Section 2.5.5.1 in chapter 2 suggested that there are strong parallels between acquisitions and turnarounds in terms of an organisational crisis followed by actions to improve performance. Turnarounds however are companies that will

fail if drastic remedial action is not taken. Clearly the same cannot be said of all acquisitions. However, this portrayal of turnarounds was broadened in a study entitled, 'Sharpbenders' (Grinyer, Mayes and McKiernan, 1988), which reviewed the performance of 1200 of the UK's largest companies in the 1970s to identify those which had achieved the sharpest improvement in performance. Having identified such companies, they interviewed a sample of twenty six companies to uncover explanations for the substantial improvement in performance. Whilst this study continues to embrace classic turnarounds, it also includes any company perceived by its management to be under-achieving although not in any danger of collapse. The emphasis of the Sharpbenders (Grinyer, Mayes and McKiernan, 1988) study, upon companies achieving 'a sharp and sustained improvement in performance' (Grinyer, Mayes and McKiernan, 1988: 9), seemed a particularly close parallel with corporate acquisitions.

The advantage of turnaround studies in general and the Sharpbenders (Grinyer, Mayes and McKiernan, 1988) study in particular is that they offer a more comprehensive guide of changes that take place in achieving improved performance during a crisis. The Sharpbenders (Grinyer, Mayes and McKiernan, 1988:164-175) study divides the turnaround process into four stages; 1) causes of relative decline 2) triggers of radical change 3) what the Sharpbenders did 4) characteristics of sustained improved performance. In terms of our enquiry into changes in the post-acquisition phase, we are concerned with stage three in the sharpbend process, namely, what the Sharpbenders did to achieve a

sharpbend. For this stage alone, the Sharpbenders study (Grinyer, Mayes and McKiernan, 1989: 167-172) cites over 100 items for examination which is too extensive for our questionnaire especially as we also have other areas for enquiry. However in the discussion on what steps Sharpbenders took, it quickly becomes apparent that many items occurred infrequently in their case studies. As a consequence we have adopted only those items which occurred in 35% or more cases. The only complicating factor is the inclusion of items with a lower value where there has been some evidence elsewhere that they might be important in an acquisition context. Table 3.1 shows the Sharpbenders items and their location in our questionnaire.

Table 3.1 Sharpbenders steps to achieve a sharpbend

% of sharpbends citing this factor	Sharpbenders (Chapter 4: 63-108)	Survey question(s)	Nos
	4.1 Changes in management		
65	- change chairman CEO	Was the CEO MD changed?	5b,5c
30	- change in executive directors	Appoint new senior executives	20d
20	- change marketing director	Appoint new marketing sales director	20f
15	- change finance director	Appoint new finance director	20e
60	- new top management is committed, positive with a bias for action	Top team is more action oriented	20k
40	- new top management injects new values, or vision	Top team injects new values vision	20j
35	- new management creates climate of 'productivity through people'	Communicating with the acquired company staff	25j
	4.2 Changes in organisation		
35	- decentralisation of innovation and operating decisions	(Contained beneath)	
30	- reduction in head office	(Remove senior executives)	20g
10	- tighten financial controls	Improve financial control systems	17c
	- tighten capital expenditure	Control expenditure	17f
	- introduce corporate planning	Change planning system	23d

Table 3.1 (contd) Sharpbenders steps to achieve a sharpbend

	4.3 Strong central financial control		
45	- cash flow forecasts	Develop cash flow forecasts	17e
35	- budgetary controls	Broaden scope of annual profit plans	17g
35	- capital budgeting system	budgeting systems	
55	- tight control of overheads	Improve financial control systems	17c
		Control expenditure (all capital and revenue expenditure needs CEO approval)	17f
		Adopt parent financial reporting systems	17d
	4.4 New product market focus		
55	- evaluate existing strategy	Review marketing plan	18c
50	- clo ure	Sale or closure of businesses	21c
45	- dive tments	Sale or closure of businesses	21c
50	- focu ed strategy	Focus on a particular market segment	18d
		Implement new marketing initiative	18e
45	- ti ht control of production costs	Intensive effort to reduce production costs	21d
45	- tıght control of overheads		
60	- invest in new plant	Purchase of new equipment	21h
	4.5 Improved product quality and service		
40	- better product design	Improve product design	21k
20	introduction or improvement of quality control	Introduce or improve quality control system	21j
15	- reduce delivery days	Improve delivery times	21n
10	- introduction or improvement of after-sales service	Introduce or improve after-sales service	18f
	4.6 Improved marketing		
20	analyse and revise distribution channels	Improve distribution channels	18h
15	- focus on more profitable customers	Focus on particular market segment	18d
15	- analyse and revise after-sales service	Introduce or improve after sales service	18f
20	- improve marketing information to management	Improved and more frequent marketing information to the CEO	18i
45	- get closer to the customer	Stress getting closer to the customer	18g

Table 3.1 (contd) Sharpbenders steps to achieve a sharpbend

	4.7 Cost reduction strategies		
	- cut overheads		
45	- head office staff	(Remove senior executives)	20g
30	- reduce production costs	Intensive efforts to reduce production costs	21d
40	- improved morale	?	
35	- better production control	Investigate inventory controls	21e
30	- better stock control	(Stock take)	21g
		Adopt parent inventory controls	21f
35	- improved utilisation of capacity	Intensive efforts to reduce production costs	21d
65	- inve t in new plant	Purchase new equipment	20h
		Adopt new processes	20l
	4.8 Acquisitions	N A	N A
	4.9 Debt restructuring		
35	- ale of ubsidiaries	Sale or closure of businesses	21c
		Sale of equipment	21i
	4.10 Windfalls		
40	- Cyclical upturn in demand	Since the acquisition has the acquired company benefited from a windfall beyond your control i.e. cyclical upturn in demand, Gov. action, demise of a competitor, change in exchange rates?	10

Number of firms citing at least one item in this category

- Construct reliability and validity

The main dimensions of change[15] have been drawn from the Sharpbenders (Grinyer, Mayes and McKiernan, 1988) study although we have tended to adopt only those items which were cited in 35% or more of Sharpbend cases.

[15] The Sharpbenders (Grinyer, Mayes and McKiernan, 1988) study used an extensive item scale analysis and adjustment of scales to exclude those not significantly, positively correlated. The analysis was undertaken by statisticians at NEDO.

In Chapter five, we build a picture of change for each of our acquisition types by using Sharpbender constructs. For our purposes we should look at each construct to see if the constituent variables are a reliable measure for the construct in question. Kline (1993: 10) suggests that 'coefficient alpha is the best index of internal consistency' and states that 'alphas should never drop below .7' (Guilford 1956, Nunnally, 1978 cited in Kline, 1993: 10). Table 3.2 shows the alphas for the Sharpbenders constructs.

Table 3.2 Alphas for Sharpbenders constructs

Sharpbenders Constructs	Cronbach Alphas
Changes in management	.85
Changes in organisation	.65
Strong central financial control	.80
New product market focus	.85
Improved product market focus	.75
Improved marketing	.87
Cost reduction strategies	.81
Acquisitions	N A
Debt restructuring	.76
Windfalls	N A

Note. N A means that this construct used in Sharpbenders is not relevant to our enquiry

It is clear from the above that the items in the changes in organisation construct give an alpha below .7. For this reason the construct will be dropped from further analysis. It is also worth noting that this construct does not feature

prominently in the Sharpbenders study. Whilst some of the other construct alphas are a little low, they do not break the minimum value.

Looking at each construct there seems to be face validity for the items although to test this is not necessary as each are derived from underlying hypotheses.

3.5.3.3 Theme 3: Managing Executives and change

Section 2.6 in chapter 2 shows a rich tradition of according differences in organisational change to whether the Managing Executive is an Insider or an Outsider. However there appear to be some contradictory findings depending upon the definition of these categories. To examine these differences in an acquisition context and to examine the apparent contradictions, we have used several definitions of Insider and Outsider.

Question 5b asks whether the Managing Executive was in his current role before the take-over. This establishes if the respondent is an incumbent or new executive. Question 5c asks the new executives for their previous position which indicates whether they have been promoted from within the acquired company, brought in from the parent company or brought in from outside both companies and from which industry. From this information it is possible to ascertain Organisational Insiders v. Organisational Outsiders, Industry Insiders v. Industry Outsiders as well as Incumbent Management v. New Management.

Based on these distinctions we can evaluate the hypotheses that relate to whether the importance of senior management type makes a difference in terms of changes made to the acquired company. We can also comment upon whether there is a difference in the speed with which changes take place.

In this context we will examine changes on a straight forward functional basis. This will draw upon the Sharpbenders items detailed above but also include items from Gabarro's (1987) work on 'taking-charge' which are discussed in more detail in section 3.5.2.5

- Summary of change items by function

Table 3.3 lists questions 17 - 23 of the questionnaire and shows their origin (full summary in appendix 3.2). It shows the complementary nature of the variables suggested by the Sharpbenders and Taking charge studies. In addition it gives a Cronbach alpha statistic to show the reliability of the measure.

Table 3.3 Questionnaire questions on change (17 - 23)

Function	Questionnaire variables	Sharpbenders variables	Gabarro variables	Reliability (Cronbach alphas)
Finance	17b		✓	.76
	17c	✓	✓	
	17d			
	17e	✓	✓	
	17f	✓		
	17g	✓	✓	
	17h	✓		
Marketing	18b		✓	.93
	18c	✓		
	18d	✓		
	18e	✓		
	18f	✓		
	18g	✓		
	18h	✓		
	18i	✓		

Table 3.3 (contd) Questionnaire questions on change (17 - 23)

Function	Questionnaire variables	Sharpbenders variables	Gabarro variables	Reliability (Cronbach alphas)
Communications	19b		✓	.86
	19c		✓	
	19d		✓	
Human resources	20b		✓	.93
	20c		✓	
	20d	✓	✓	
	20e	✓		
	20f	✓		
	20g	✓	✓	
	20h			
	20i		✓	
	20j	✓		
	20k	✓		
	20l		✓	
	20m		✓	
	20n			
	20o		✓	
Operations management	21b		✓	.93 (excluding 21j)
	21c	✓	✓	
	21d	✓		
	21e	✓		
	21f	✓		
	21g	✓		
	21h	✓		
	21i	✓		
	21j	✓		
	21k	✓		
	21l	✓		
	21m			
	21n	✓		
I.T.	22b		✓	.84
	22c			
	22d		✓	
General	23b		✓	.66
	23c		✓	
	23d	✓		

Unsurprisingly the general category is incoherent and a low Cronbach alpha score means it will be discarded.

3.5.3.4 Theme 4: Timing of changes

To create a picture of when changes are initiated in an acquisition context we have drawn upon Gabarro's (1987) work, reviewed in Section 2.7.1.1. in Chapter 2, which graphically demonstrates waves of activity for an executive taking-charge of a company. His choice of variables has a different emphasis to the Sharpbenders study and owes much to the organisational behaviour school. In broad terms Gabarro (1987) focuses upon structural changes in the aggregate, management systems, and personnel issues with particular attention paid to communications. Table 3.4 shows how his items have been incorporated into the questionnaire.

Table 3.4 Gabarro's Organisational Activities

Gabarro' Activit'es (Appendix C: 177)	Survey Questions	Nos
Entry activities		
• Orientational meetings with direct reports	Set up direct reporting	19c
• Formal group briefings	Communicating with acquired company staff through formal channels	25k
• Tours or site visits	Tour factories operations of the acquired company	25j
Meetings		
• Problem focused meetings	Set up 1:1 ad hoc problem focused meetings	19d
• Schedules formal group meetings	Set up extensive formal 1:1 meetings with employees	19b
• Schedules one to one meetings	As above	19b, d

Table 3.4 (contd) Gabarro's Organisational Activities

Gabarro's Activities (Appendix C: 177)	Survey Questions	Nos
Management systems		
• Institutes or revises budgeting system	Develop cash flow forecasts Broaden scope of annual profit plans budget system	17e, g
• Institutes or changes Information system	Change information system	22d
• Institutes or changes control system	Improve financial control system	17c*
• Institutes or changes planning system	Change planning system	23d
• Institutes or changes performance appraisal	Change performance appraisal system	20m
• Establishes problem focused task forces	Set up problem focused task forces	25n
• Establishes strategic review	Establish strategic review or analysis process	25o
• Establishes internal training or development programs	Implement management development program	20o
• Establishes or alters personnel hiring ways		
• Institutes changes in compensation system	Introduce,change employee incentive scheme	20l
Organisational structure		
• Structural change involving two or fewer minor sub unit	Will be an amalgam of; curtailing autonomy responsibility of a group and structural changes to functional departments with few assets	23b, 20b, 18b, 17b
• Structural changes involving two or fewer major sub-units	Will be an amalgam of; sale or closure of businesses, structural change in manufacturing operations or I. T.	21c, 21b, 22b
• Structural changes of entire organisation	Full combination of the above	
• Creates new organisation sub-unit or function not previously existing	Create new group	23c
Management personnel changes		
• Terminates management personnel	Remove senior executives	20g
• Initiate search for new management person	Initiate search for new senior executive	20i
• Hire or promotes management person	Appoint new senior executive	20d
• Reassigns management personnel	Reassign management personnel	20c

*We have data for other systems but this is probably the right interpretation

The cross-sectional survey method is limited in its ability to capture longitudinal data. At best we are capturing perceptions, from one moment in time, of when change started. These perceptions may be quite different to actual occurrence, or 'clock time' (Whipp, 1995). To minimise this potential distortion we did not send questionnaires out to acquisitions where more than four years had elapsed. There is also a more positive side to the issue of 'forgetting' some of the detail in that the issues important to the executive will assume a sharper focus. In anticipation of any time bias, we focused our analysis upon a subset of respondents who experienced a similar recall period.

On the questionnaire each respondent was asked to indicate, after answering whether an item had been changed, the number of months that had elapsed since acquisition for the change to have been initiated. This seemed a reasonable time frame as the taking-charge process is reported to take around two and a half years (Gabarro, 1987) and there are many anecdotes in the acquisition literature that describe problems with acquisitions rumbling on for years. With hindsight, a great deal of change takes place very quickly and many respondents indicated that changes were happening within days.

In constructing his waves of change, Gabarro (1987: 178) observes that only the change data relating to structural and personnel changes[16] could be used as 'each was comparable across cases using a common set of conventions'. With this

[16] Reliability scores (Cronbach alphas) for these two constructs are .77 and .82 respectively

data, Gabarro (1987: 184-7) then computes 'the average number of structural and personnel changes made per period for the sample and then simply adds these two figures on a per period basis' to achieve a single summary. To enable comparison with Gabarro's (1987) findings, we will follow this method.

Gabarro's (1987: 178) explanation for dropping the other areas of data is that they could not be reduced to a common metric. 'For example, although it was possible to count changes in information and control systems and the frequency of introduction of task forces, the extensiveness and impact of these changes varied greatly across cases' (Gabarro, 1987: 178). Whilst there may be some merit in this, we are also faced with losing a great deal of important information. For this reason we have attempted to include all of his areas of enquiry into our questionnaire.

We try to overcome the problem of ascribing magnitude to change items by collecting the opinions of a group of executives[17] with acquisition experience on the impact[18] and disruptiveness of each item of change. These opinions were

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[17] 40 executives were surveyed by questionnaire. They had a wide range of industry backgrounds and were attending an executive course at Warwick Business School. 30 had direct experience of being taken over. 19 of the executives were in general management positions at the time. Using SPSS v.6 for this and subsequent analysis, responses were compared on the grounds of acquisition experience and general management experience. There were significant differences between the groups which had experienced acquisition and, for later analysis, this group of 30 executives with direct experience of being taken over was used.
As this thesis seeks to show, there are different types of post-acquisition management and we should remember that this may affect executive perceptions of changes depending upon which type of acquisition they experienced.

[18] My use of these constructs was very limited in so far as I only intended to see whether the changes in the original questionnaire were perceived to have a high or low impact or cause little or substantial disruption. I do not go on to interpret 'impact' or 'disruption' as positive

collected by survey during Easter 1997. This enabled us to create a more extensive and robust picture of the timing and magnitude of change.

3.5.4 Coding questions

The majority of questions could be pre coded as they were either closed or forced choice in nature. There were a limited number of open questions as the range of responses can often be very large and resistant to coding (Bryman, 1989: 50). However there is no denying that they offer a certain richness which is appropriate in more exploratory questions. For example, there are a very wide range of motives for making an acquisition and to the best of this author's knowledge no complete template is available. To understand the reasons therefore why an acquisition was made, this type of open question seemed appropriate.

We did encounter a few problems, as suggested by Bryman, not only in the range of answers, but also because there is a lot of 'blanket' jargon currently in use amongst practitioners in this field. For instance, one answer to the question enquiring after the reason for acquisition, was just 'strategic'. Nevertheless this limited amount of data has provided useful descriptive background.

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or negative. In terms of whether 'impact' or 'disruptiveness' is dependent upon circumstances, we have chosen to assume, that the acquisition event is one of crisis for the acquired company and that changes following the acquisition will largely be judged in those terms. This stance also received some support in subsequent interviews.

3.5.5 Survey Pilot

Once the survey instrument was constructed, it was circulated amongst colleagues at Warwick Business School who provided useful technical feedback in terms of the wording of questions, ordering and potential coding difficulties. A pilot was then sent out to the Managing Executives of two different types of acquisition. Whilst there was some useful practical feedback in terms of clarifying questions, there was little substantive comment.

3.5.6 Problems with surveying corporate acquisitions

There is a general problem in the quality of acquisition reporting. We relied predominantly upon the industry bible, Acquisitions Monthly, but were aware that many acquisitions were wrongly reported. For instance a questionnaire was returned from Clarks Shoes to say that they were proud to remain independent and weren't aware of a take-over bid. In addition many transactions were reported which weren't strictly corporate acquisitions - such as capital restructuring, two stage offers reported as two acquisitions, management buy-outs and buy-ins and errors from inaccurate press reporting. These inaccuracies would significantly distort response rates and yet other theses do not mention them.

One of the main difficulties of studying the acquired company is the extent of changes that have taken place already. Database information (Key British Enterprises, Kompass, Hambros Company guide, Andersen's Company guide

etc) is notoriously unreliable as it is based upon Companies' House returns which can be several years out of date. Company names, telephone numbers and addresses change, which causes mail to go astray and in some cases makes finding the company difficult. Indeed it can be very difficult to establish whether a company is still in existence.

Identifying the key executive can also be a major problem after the acquisition has taken place, due to staff turnover and relocation. The databases were very unreliable (Directory of Directors, Key British Enterprises). We found companies were very unhelpful in saying to which company executives had moved. To overcome this problem, it was necessary to telephone nearly every company, often on several occasions to work out who the Managing Executive was and where he could be located. In the case of executives who retired, and there were many instances of this, in no circumstances were home addresses or contact numbers released. Our only option was to try to pursue them through their membership of various London Clubs!

For those executives who stayed, some Managing Executives had been promoted and then regarded the post-acquisition phase as 'history' and of limited interest. We also found difficulty where current management felt previous management were more relevant and previous management felt current management were more relevant.

Telephoning was often the solution, albeit a very time consuming one. However this was not without its difficulties, particularly if the acquisition was sensitive. In many cases new owners and their staff would not acknowledge the existence of the acquired company and could then be very unhelpful. This was particularly true for American acquirers, who are very quick to remove every trace of identity of the acquired company with only a remote American address as a point of contact, and also for those companies taken private, whose new owners then jealously guarded their privacy.

3.5.7 Problems with postal surveys

There are fundamental problems using postal surveys which should be considered as they can have significant repercussions.

There are many articles which bemoan the declining response rate of postal surveys (Goyden, 1988, Kalton, 1983). A recent working paper by Baruch (1996) concludes that there has been a notable decline in average response rates over the twenty years 1975 - 1995 reported in articles drawn from a wide range of journals and that top management studies had lower response rates than other areas.

Companies are now bombarded with questionnaires and many now have a policy of refusing to respond as they would have to take on staff to handle the

extra work. Fenton-O'Creevy (1996) suggests that this is the case for 22% of non-responding top executives[19] (cited in Baruch, 1996). Corporate acquisitions are a glamorous feature of business and so attract a large share of questionnaires. However acquisitions are also very sensitive issues which raises concerns over confidentiality and, perhaps more importantly, are times of enormous work loads where questionnaires are perceived as time wasters. To achieve satisfactory response rates in acquisition studies is therefore extremely difficult and eminent researchers such as Datta and Grant (1990) are recording response rates of 27% which they considered satisfactory for this subject area and we are now witnessing publications with response rates as low as 9% (McKiernan and Merali, 1995).

There is an issue that surveys capture what the researcher regards as important rather than what the manager does[20]. Although in conceptual terms this survey is driven by the management theory, much of the literature on mergers and acquisitions is highly practitioner oriented and written by practising executives. Many of these concerns are reflected in the questionnaire as well as the previous direct managerial experience of the author. In addition the use of both a pilot survey and subsequent interviews, also served to alter the balance towards practitioner concerns.

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[19] Fenton-O'Creevy (1996) suggests that 28% are too busy, 14% think the survey irrelevant, 12% of addresses are unavailable, 24% didn't say.

[20] Underlying this comment are deeper issues: What purpose does the research serves: is it driven by academic or practitioner priorities? By definition surveys will not capture the richness and depth of case studies and in generalities, can lose sight of managerial concerns which are often couched in company and industry specific terms.

In surveying corporate acquisitions which have taken place over a period of time, with one survey instrument which is launched at one moment in time, there is an issue of different time periods which have elapsed between the acquisition date and questionnaire date. This may have implications for post-hoc rationalisation (see 3-152) as well as quality of executive memory. This issue is particularly important where the timing of change has been sought and for this reason, as described on page 3-171, care has been taken to attempt to control for elapsed time between questionnaire date and acquisition date.

In addition to the above we experienced the normal problems associated with surveys, namely misreading of letters, obstructive and protective secretaries and switchboards and the vagaries of the postal system. In addition we would like to add that these executives are now doing a very great deal of travelling which made communication with them difficult and surely intensifies their problems in handling large paper loads.

A more serious issue is whether the key informant has indeed answered the questionnaire himself. For reasons given on page 3 - 152 footnote 11, we believe this cause for concern in this instance is minimal.

3.5.8 Raising the response rate

Aware that surveys are plagued by low response rates, particularly in the area of acquisitions, we adopted many of the measures suggested by Oppenheim (1992:

104-5) to encourage response. A particular difficulty in the acquisition field is the issue of change in ownership so in the vast majority of instances, the company was telephoned to ensure the appropriate executive was targeted. All letters were addressed to the respondent personally. To add credibility Professor Sid Gray kindly allowed the use of his name and title together with my own. Certainly in a couple of instances replies were forthcoming because of this action. In addition I attached a sheet detailing my past practical experience in M & A in merchant banking. This showed seriousness of purpose and a number of executives were keen to be involved for this reason.

Considerable effort was put into producing a professional questionnaire document that might 'merit' attention. There is some debate over the length and complexity of the questionnaire. We felt, in line with Oppenheim (1992: 105), that if the survey was interesting to the respondent and well produced, these would be more important factors than length. In hindsight this seems to be correct as we received many favourable and encouraging comments even from those who were unable to respond to the questions due to company policy.

Confidentiality of replies was clearly stated and all respondents were promised, and subsequently received, feedback of preliminary results. A stamp addressed envelope was enclosed to aid reply and a follow up telephone call was carried out four to five days after posting.

3.6 Data characteristics

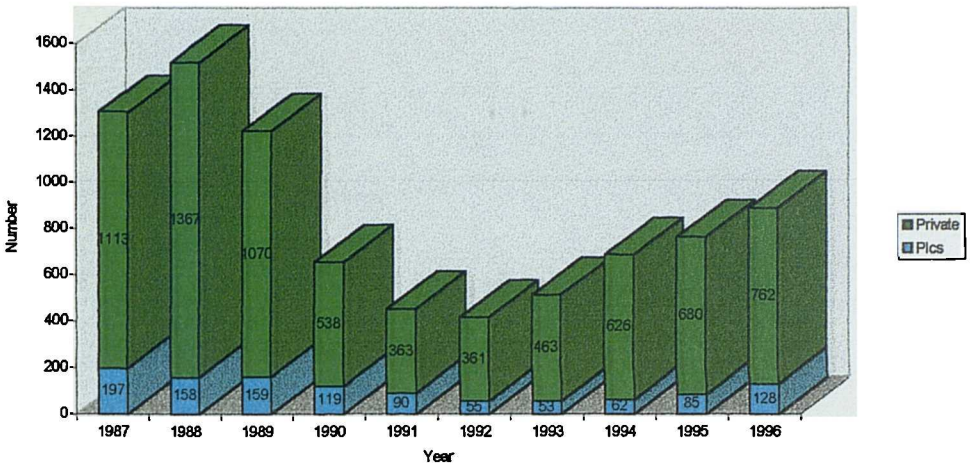
The survey collected data on the acquisition of UK corporates which took place between April 1991 - March 1994. To see whether the survey period is representative of acquisition activity in general we looked at the pattern of corporate acquisition activity in the UK for the ten year period 1987 - 1996[21].

3.6.1 The context: acquisitions in the UK, 1987 - 96

Acquisitions Monthly, the industry bible, reported for the ten years, 1987 to 1996, a total of 14,118 acquisitions in the UK, with a value of £305.1bn. A significant proportion of these deals however were MBOs which are beyond the scope of our enquiry. Figure 3.1 shows the total number of corporate acquisitions, excluding MBOs, subsidiaries, government owned companies and those in administration or receivership. In all cases 100% of the company was acquired. The resultant acquisitions, totalling 8,449 take-overs, are split into public and private deals.

[21] This time period was chosen as it was necessary to delve beneath aggregate figures, by hand, which took several months. Although computerised databases exist, Warwick library resources do not extend to this facility. Other libraries, conscious of the expense of these databases, will not allow access to visitors. Towards the end of the write up, and through my own efforts, I was able to gain access to AMDATA.

Figure 3.1: Total number of reported corporate acquisitions in the UK



Source: Acquisitions Monthly - direct correspondence (7.4.98)[22]

With far more private acquisitions than public ones we should take some time to examine their characteristics.

- Private acquisitions

One of the most striking aspects of private acquisitions is the high percentage for which we have no data. Over the ten year period 1986 - 1995, no information was released about bid size for 30.15% of deals.

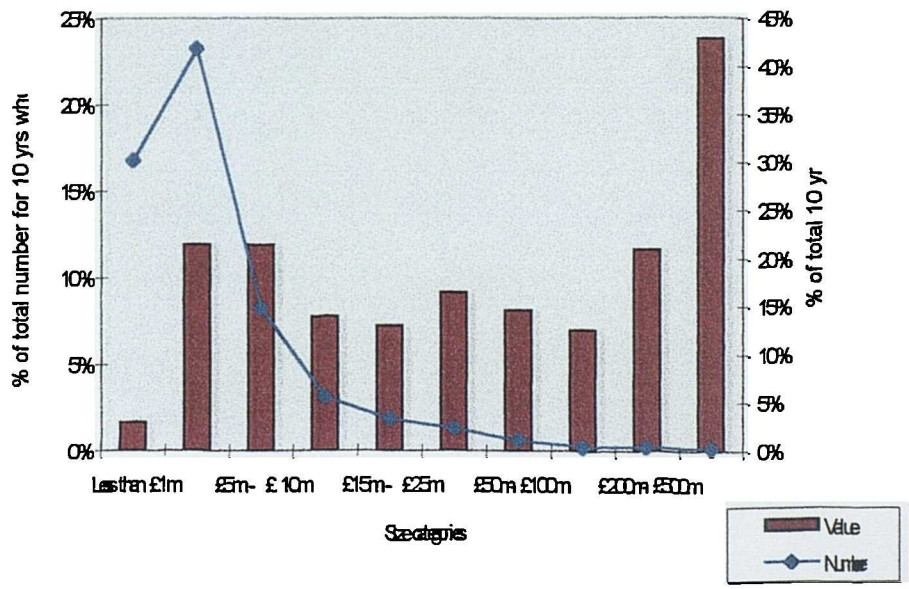
We cannot assess where these unrecorded values lie but it is probable that the majority are in fact very small indeed and this is why they have attracted little reporting attention. Indeed it is likely that the purchasers also regard them as

[22] The numbers of private acquisitions for 1996 and probably 1997 are slightly over stated. Acquisitions Monthly produces a break down of MBOs at each year end. However a number will always come to light at a later date. The data for 1995 is accurate; 1996 has since revealed 31 MBOs which are either private acquisitions or divestments; 1997 it is too early to say.

rather minor and see no reason to publicise them. In their eyes these deals are probably just the acquisition of a few bolt on assets. However there are undoubtedly some cases where the parties are very particular about keeping the details of the deal secret.

The other striking feature of private acquisitions in the UK are that the vast majority are in fact very small in bid value, with 50.27% under £5m in value. For the ten years in question, 96.96% of the number of private deals was less than £25m in size. The remaining 3.04% of deals however accounted for 59.64% of all recorded considerations. The distribution of numbers of deals against consideration is shown below.

Figure 3.2: Value versus number of private acquisitions in the UK (1986 - 1995)

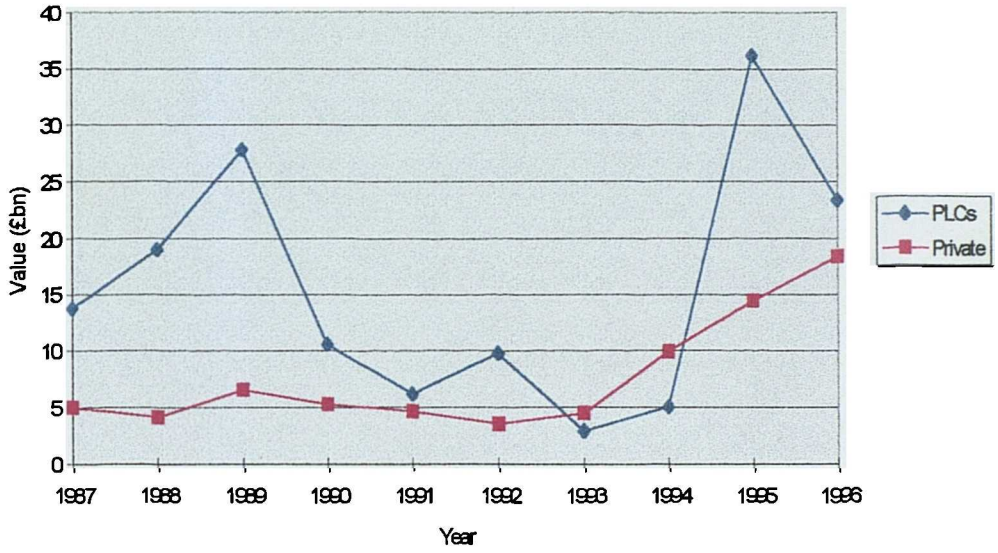


Source: Acquisitions Monthly - direct correspondence (13.8.96)

- Comparing Public and Private deals

Public acquisitions also show a preponderance of smaller deals with very large deals again greatly affecting the overall picture. Perhaps as one might expect, public deals, whilst much smaller in number than private deals, account for a very high portion of total take-over activity by value. Figure 3.3 compares public and private activity over ten years by value.

Figure 3.3: Corporate acquisitions in the UK by value (1987 - 1996)



Source: Acquisitions Monthly (7.4.98)

- Acquisitions in the recession

It is interesting to note that the years 1990 to 1994 are marked by a slump in activity, particularly in value terms. During those years the relative importance of private acquisitions increases. Indeed there is an interesting piece of research to

to be done on small and private acquisition activity as, to date, research has concentrated exclusively upon public acquisitions of a large size.

Our survey years, from 1991 - 1994, are located at a nadir in acquisition activity with 1,209 deals valued at some £25.9bn being well under half the number and value of deals of the preceding three year period, and half the number and a fifth of the value of deals in the following three year period.

This nadir in acquisition activity corresponds with a general recession in the UK economy. From this point of view we might argue that we are examining acquisitions during a recession. The characteristics of the survey years will therefore be fewer deals of an overall smaller value. During this time the split of acquisition activity in terms of value is broadly equal between public and private deals. This would differ from a recovery, which we can see in figure 3.3 where the number and size of deals generally increases, and the importance of public deals in terms of value, relative to private deals, increases dramatically.

One might suggest that by examining acquisitions in a recession we are looking at the background picture of acquisition activity without the mega-deals of the boom years. Our willingness to include private as well as public deals is unusual in the literature but to our mind, better reflects the dominant source of activity despite the increased difficulties with the availability of data. To concentrate on large public deals just because this data is readily available does not seem to be an entirely justifiable route to understanding acquisitions in general.

By surveying the population of deals we will be examining predominantly small transactions. However we chose a cut off, of £8m in bid value, as the quality of data was beginning to be very poor and we were straying from the notion of corporate acquisitions towards acquisitions as purely bolt on assets which would not display a range of acquisition characteristics. Even with a cut off point however we feel that we will generate a better picture of acquisition activity in general that the vast majority of studies which exclusively examine large public acquisitions.

We've examined the 'global' picture as it has received wide publicity and assumed common currency. However it rests uneasily with my survey of just 232 acquisitions as a total population for a three year period. The substantial difference is attributable to aggregate data which contains significant assumptions over what constitutes a corporate acquisition as well as a number of reporting errors. For reasons discussed above, it has not been possible to manually go through all 14,118 deals to sift out errors but this has been done for all transactions recorded for the Survey years.

3.6.2 The survey population

The survey covered acquisitions in the UK between April 1991 - March 1994. This time frame was selected on the basis of Gabarro's (1987) work which suggests that the process of taking-charge is accomplished within two to two

and a half years. In addition it was felt that an increase in the time elapsed would contribute to a deterioration in the quality of data.

According to AMDATA[23], the total number of corporate acquisitions in the UK, above £8m in bid size, from April 1991 to March 1994, is 1,390 deals. Further adjustments were made to remove acquisitions that did not fit the focus of this research into the 100% acquisition of independent UK corporates by corporate acquirers. As a consequence, the following categories of deal were excluded; targets with overseas owners, those operating predominantly overseas, targets which were subsidiaries before the deal, partial acquisitions, asset purchases such as the purchase of a storage facility or an investment portfolio, targets purchased by MBO MBI teams or consortium investors, and targets that were in receivership. From our original population of 1390 acquisitions, we arrived at an accurate population of 232 corporate acquisitions in the UK from April 1991 to March 1994. The following table gives a break down of the frequency of reasons for exclusion. In many cases, acquisitions were excluded for several reasons which means that the total of table 3.5 exceeds the population.

[23] AMDATA is Acquisitions Monthly's on-line database

Table 3.5: Reasons for exclusion of reported deals from the population

	Number of deals
Foreign ownership / business	481
Partial acquisition	278
MBO / MBI	167
Receivership	12
Consortium / Entrepreneurial purchaser	9
Targets as subsidiaries	866
Asset purchases	98

3.6.2.1 Response rate

Questionnaires were mailed to the Managing Executives of a population of 232 acquired companies. The initial mailing was followed up by a telephone call and in total 70 responses were received. This response rate[24] of nearly 30.17% is moderate for surveys in general, although it is worth pointing out that this is 30.17% of a population rather than a sample.

As we noted in section 3.5.6, survey response rates have been declining for some time (Goyder 1988) and indeed Kalton (1983) suggests in general a low figure of 10%. In addition acquisition surveys generally record lower response rates due to problems specific to the area. Many of these issues were raised in section 3.5.6, including the perceived sensitivity of the subject area; data

[24] Response rate is defined as the ratio of the number of questionnaires completed for eligible elements in the sample to the number of eligible elements in the population (adapted from Kalton 1983: 66)

confidentiality; lack of executive time due to the pressures of acquisition integration; the unwillingness to communicate if the acquisition has failed or is not working out; the departure of the key executive responsible for the integration and with no contact number; and, in several cases; the complete disappearance of the business - due to relocation, renaming or failure.

It is worth stating that with our research focusing upon 'life' after acquisition, there will inevitably be less than 100% of the acquired population to survey, as this area experiences many 'corporate deaths'[25] soon after acquisition. One might argue therefore that our response rate should be adjusted upwards as we are seeking to study what happens in acquisitions which survive.

3.6.2.2 Non-response bias

With a response rate of around 30.17% we have to face the fact that 69.83% of acquisitions did not respond and that there may be non-response bias. In particular Kalton (1983) remarks that there is evidence that non-response bias is not evenly spread across the population but is more heavily concentrated in sub-groups. Clearly this could affect the generalizability of our results to the population.

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[25] Corporate deaths are here taken to mean companies which are taken over and closed down. This does not include companies which are taken over and integrated into the parent so that they lose their identity.

Datta and Grant (1991) use t-tests to compare respondents and non-respondents along the dimension of size of sales and size of bid. We found that both our population of acquisitions and our responding sample were highly skewed so that the assumptions of normality were violated and the one sample t-test on the data as it stands would have been inappropriate. The median scores for both are shown in tables 3.6 - 3.7. Their similarity gives some comfort regarding non-response bias.

Table 3.6: Responding sample and non-respondents by sales

Acquired firms	Mean	Standard Error	Median
Responding sample	£49.92m	7.10	£26.75m
Non-responding firms	£71.69m	9.85	£25.18m

Table 3.7: Responding sample and non-respondents by bid value

Acquired firms	Mean	Standard Error	Median
Responding sample	£41.95m	7.32	£18.80m
Non-responding firms	£54.46m	9.41	£16.90m

For a more rigorous approach to this issue we also transformed our data using a log normal approach and ran t-tests which established that there were no significant differences between our responding sample and the population. In addition we examined the data more closely by comparing quintiles for bid value, target sales and numbers of target employees. On all measures there were

no significant differences. Full results for these tests are contained in appendix 3.3.

However with 68.3% non-respondents we cannot rule out some sort of systematic bias. One potential area of bias maybe that the questionnaire assumes a consistent approach to the handling of post-acquisition integration. It may be that recipients of the questionnaire who adopted different integration styles for different parts of an acquired multi-divisional businesses may have found it impossible to provide single answers to questions posed.

Another source of bias may be in the area of success. In terms of overall success, based upon answers to question 9a in the questionnaire, 82.6% of respondents perceived the acquisition to be satisfactorily or very successful whereas only 14.5% felt the acquisition was moderately or not at all successful [6]. Allowing for success being weakly associated with the amount of time elapsed after acquisition[27], we examined acquisitions where two years or more had elapsed since take-over. 69.2% perceived the acquisition as satisfactorily or very successful, whereas 26.9% felt it to be unsatisfactory or not at all successful. 3.8% thought it too early to say. These success rates are still substantially higher than recorded in the literature reviewed in Chapter two, where we are led to believe that around half of all acquisitions fail. In part we may account for this by referring to an earlier point, that some acquisitions cease

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[26] 2.9% thought it too early to say.
[27] Significant at the .09 level

to exist and so the proportion of failed acquisitions will be biased downwards. Secondly, it is reasonable to expect executives who have presided over successful acquisitions to be more willing to share their experiences. Certainly on one occasion, when this researcher was encouraging a reluctant executive to return his questionnaire, the comment received over the telephone was that 'talking to you is like rubbing salt into an open wound'[28]. Thirdly, there is also a case for suggesting that acquisitions which are in difficulty are likely to be putting greater demands upon the executive in question than ones which run smoothly. For these reasons we might expect our respondents to represent more successful acquisitions.

There is also an issue of the extent to which the issue of success may be biasing returns for the type of acquisition. As it is not possible to assess the type of acquisition until a questionnaire has been returned, we cannot say if this bias is a real issue. However it might make sense to say that complex acquisitions may be harder to handle, put greater pressure upon managing executives and present more opportunities for things to go wrong. In such acquisitions we might expect there to be fewer responses to the questionnaire.

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[28] He didn't return his questionnaire!

3.7 Survey data analysis

The population of corporate acquisitions over £8m in size in the UK 1991 - 1994 was 232[29]. In survey terms this is a small number and so the questionnaire was sent to every acquired company (see foot note 19). Our data analysis is of a responding sample.

This has repercussions in terms of the statistics that can be applied. The purpose of many statistical techniques is to enable the researcher to draw a probabilistic inference about the qualities of a population from a representative sample. In other words, in dealing with large populations, researchers purposely attempt to create a representative sample to which statistics can be applied to enable generalisation to that wider population.

In our case, with a small population of 232 acquisitions, this is unnecessary. We could have looked at some form of stratified or representative sampling but this might have proved difficult in response terms and, more importantly, as we are interested in an internal measure (resource transfer), this could not be assessed externally. This made representative sampling inappropriate. As a result our

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[29] This is a refined definition of the population taken from the AMDATA source. One of the problems of researching acquisitions is not being sure whether they are correctly reported and the secrecy surrounding some companies makes clarification impossible until some time has elapsed. In actuality, I identified all the acquisitions, by hand, from Acquisitions Monthly and sent our 316 questionnaires. Two years later I gained access to the AMDATA database which had audited the acquisitions of the time period under consideration and concluded that there were 232. In other words, I had sent out questionnaires to acquisitions which were not in existence. For this reason they were excluded from our final population number.

responses are part of the population and so can only make claims in confidence for that portion, although of course, they are robust and not inferred claims.

3.7.1 Data tests

The analysis of the questionnaire data was carried out on SSPS, release 6.0, Windows based version. Our data is not normally distributed and so we have largely relied upon non-parametric tests which do not make assumptions about the distribution of underlying data. These tests are more conservative than parametric tests. In the few instances where the data is normally distributed, or where it has been transformed, we have used parametric tests. In these tests, with a small, finite population, we could have applied the finite population correction, but have not done so, preferring to err on the side of caution.

For the data we have collected, the most frequently used tests were as follows;

Tests of Independence: Much of the questionnaire data is nominal in form. To analyse this, cross tabs have been used with the Pearson chi-square statistic to determine independence. The chi square statistic requires the minimum expected frequencies of each cell to be five. Whilst some studies have shown this to be too stringent, we have used Fisher's exact test which is appropriate when total sample size is small and the expected values are small (Norusis M. J., 1993: 209). When any expected cell value in a 2x2 table was less than five we used Fisher's

exact test which calculates exact probabilities. In larger tables we have ensured that in no cells are the expected frequencies less than one or more than 20% of the cells are less than five (Kinnear and Gray, 1994: 165).

Significance levels: The 10% level is generally seen as the highest acceptable percentage for significance. Whilst this may be reasonable, we cannot completely ignore values lying just above this rather arbitrary level. The policy adopted here is that statistical significance is only mentioned for percentages of 10% and less (following convention), but where there are consistently lowish percentages to suggest a trend, these are pointed out.

Tests of Association: The Pearson chi-square statistic is not a good measure of association as it is influenced by sample size and degrees of freedom. A number of modifications (phi coefficient, coefficient of contingency, Cramer's V) of the Pearson correlation coefficient exist to overcome these two problems. It is worth noting that many of our cross tabulations are 2x2, and in these instances the results of these statistics are the same, (Norusis M. J., 1993: 206-215) and so just the Pearson chi-squared statistic is given. Where the dimensions of a cross tabulation are greater than 2x2, then the modifications mentioned above are referred to.

Test for time distributions: In Chapter seven we try to evaluate whether there is a difference in the distribution of time for changes to take place. As

our data is not normally distributed and the sample sizes are small, we have used a non parametric test, the Mann-Whitney test (also known as the Wilcoxon test) for two independent samples and its extension the Kruskal-Wallis one way analysis of variance for three independent samples. These test the hypotheses that the independent samples come from populations with the same distributions (Norusis M. J., 1993: 377-379).

Where on occasion other tests have been used, these are highlighted and explained in the text.

It is worth pointing out that there were excursions into other methods, such as factor analysis to see whether there was a pattern amongst the change variables other than the functional grouping as set out in the questionnaire. Whilst this tended to show that the functional groupings were robust, which may be due to the halo effect, Kim and Mueller (1978: 73) threw considerable doubt on using factor analysis for nominal data. For this reason factor analysis was deemed inappropriate.

3.8 Interviews: selection and analysis

Once the analysis of the questionnaire was complete and we had a distribution of cases based upon the Haspeslagh and Jemison matrix, we decided to look for explanations for the patterns of change we had encountered and therefore adopted a dual methodology as discussed above. As Silverman (1993: 114) remarks, interviews 'offer a rich source of data which provides access to how they account for both their troubles and good fortune'

Silverman (1993: 106) raises the issue of the 'truth' status of interview data. He points to a dichotomy over whether interview data are a straightforward report on another reality or merely situated narratives. We have adopted the approach, expressed by Brown and Sime (1981: 160), that 'an account is neither naive nor an apology for behaviour, but must be taken as an informed statement by the person whose experiences are under investigation'. This is not to deny that other interpretations are possible as the example used by Silverman (1992) of Baruch's (1982) work shows. Baruch (1982) compares studies of parent responses to different illnesses in their children. Baruch illustrates how one researcher uses the interview to get closer to the 'facts' whilst the other researcher looks at the interviews as a social construction of reality. As Silverman stresses, Baruch does not see these accounts as competitive.

To gain a clear picture of the main types of acquisition encountered we interviewed a number of respondents for each of the acquisition types. We aimed to interview at least six cases per acquisition type. Yin (1994) suggests that the number of cases is a matter of discretionary, judgmental choice, depending upon the certainty the researcher requires. He suggests that two or three cases are sufficient when the issue at hand does not demand an excessive degree of certainty, and five, six or more if there are subtle differences' (Yin, 1994: 50). This was possible for Holding, Absorption and Preservation acquisitions which constituted the majority of our respondents. We had just three symbiotic acquisitions and so interviewed just one case for the sake of completeness.

In total 20 interviews were carried out. For confidentiality reasons, the identity of the interviewees are disguised, but the reader may gain a sense of the types of acquisition from the list in appendix 3.4.

Within each acquisition type there were examples of Organisational Outsiders and Insiders but the distribution of these categories between acquisition types was very skewed towards one type of Managing Executive. For instance Preservation acquisitions consisted of 86% Insiders[30] and 14% Outsiders,

[30] The terms Insider and Outsider refer to Organisational Insider Outsider. An Organisational Insider is an incumbent or new executive from within the acquired company. An Organisational Outsider is a new executive drawn from outside the acquired company.

Absorption acquisitions consisted of 75% Outsiders and 25% Insiders and Holding acquisitions consisted of 89% Insiders and 11% Outsiders (see Diagram 5.1 in chapter 5). To 'sharpen' the picture we interviewed several of the dominant type of executive and then the deviant case. As Baruch (1982) suggests, this helps to refine the analysis by illuminating consistent features.

The interviewee was the respondent who had filled in the questionnaire as we were interested in an explanation for their replies. The interviews were semi-structured around the main themes of the questionnaire and a copy of the interview protocol is contained in appendix 3.5. They were conducted in the respondent's environment, either office or outside work if sensitive, or at the respondent's home if retired. The average length of interviews was 1½ hours[31].

All interviews were taped[32] and fully transcribed at a later date. Crabtree and Miller (1992) provide a useful framework summarising four main approaches to data analysis, namely: quasi-statistical; templates; editing and immersion/crystallisation. Quasi-statistical methods such as content analysis as espoused in Krippendorf's (1980) text[33], fit clearly within the quantitative, logical - positivist tradition, and would seem to complement our survey.

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[31] A useful practical guide to interviewing was found in King (1994)

[32] Tape recording senior executives was not perceived to be a problem and in only one instance was the recorder turned for a short period due to sensitivity of information. Johnson (1987) observes that executives are less inhibited the more senior they are and Whittington (1989: 128) suggests that 'Most subjects were little concerned by taping'.

[33] Krippendorf advocates a scientific design with the unitising of data followed by various forms of computational analysis.

However to adopt this method would have undermined the purpose of our interviews. We wish to add depth and richness to our survey rather than strip it away. The purpose of our qualitative interviews is to add meaning and interpretation to the findings of the survey by focusing upon how Managing Executives describe and make sense of their acquisition experiences.

Our concern highlights a tension in the qualitative interview field as to whether analysis should be systematic, to provide rigour for 'academic peer assessment', which may cause harm by being reductionist, or about 'feel' (Easterby Smith et al., 1991: 112). We have decided to adopt a form of template analysis which has similarities with content analysis, in that a number of themes or categories relevant to the research are used to analyse the text, but there are differences. The pattern of themes are interpreted qualitatively rather than statistically, and the themes are revised through exposure to data (King, 1994). In our case the survey raises the main themes which were originally drawn from supporting literatures. The themes form an original template to drive the interviews and their subsequent analysis, but there is a degree of iteration both supporting and informing the survey results.

3.8.1 Interview reliability and validity

Whilst quantitative research places considerable emphasis upon these issues, the methods developed cannot be readily applied in qualitative research. However, as Miles and Huberman (1994) note, 'in traditional terms, the reliability and

validity of qualitatively derived findings can be seriously in doubt'. Despite increasingly complex qualitative work 'a deep dark question about qualitative studies remains'. 'The most serious difficulty is that the methods of analysis are not well formulated (Miles, 1979: 591) and indeed phenomenology has been described as 'a method without techniques'. Clearly the work by Miles and Huberman (1994) is just one example of many to attempt to introduce greater confidence into qualitative conclusions by focusing upon credible and dependable methods.

Whilst we have acknowledged that our interviewing edges us into the qualitative domain we can deal with some of the criticism raised above in the following way. Our aim is to describe and understand how Managing Executives make sense of their world and this does not require that we strive for objectivity in the same abstract way of positivists. However we did consider using inter-rater reliability for the coding of the interview transcripts, such as described in Miles and Huberman (1994) but decided this was unnecessary since the themes were largely determined by the questionnaire, and the coding was of a general rather than detailed level. In other words, the survey provides a robust objective framework where issues of reliability and validity are central. This provides a degree of confidence in the structure accorded to the interview data.

A more important issue for the interview data is validation. To validate our interpretations of our interviews we reverted to key interviewees as well as colleagues and practitioners to assess the 'rightness' of the interpretation. 'The

only criterion for the 'rightness' of an interpretation is inter-subjective - that is to say, that it is right for a group of people who share a similar world' (Reason and Rowan, 1981: 243 in Knight 1994).

3.9 Conclusion

In this chapter we have suggested that there are advantages in using a hybrid method for studying acquisitions as one can combine the strengths, in terms of generalisability of the cross- sectional approach, with the richness offered by in-depth case studies.

To assess changes made in the post-acquisition phase we used a postal survey from which we achieved a good level of response. From this responding sample we are able to make suggestions concerning the pattern of change for the acquisition population in terms of the type, volume and timing of change. In conjunction with this data gathering we have also carried out, as befits a strategic perspective, many key informant interviews. These key informants are managing executives who take charge of running the newly acquired companies. Through these interviews we are able to find explanation and nuance for the survey findings. In practice then, we hope that by combining methods we will gain a better understanding of the complexity of the post-acquisition phase.

4. Distribution of acquisition types and success in the UK

4.1 Introduction

In this chapter we will be examining the distribution of acquisition activity in the UK according to the acquisition typology developed by Haspeslagh and Jemison (1991). In particular we will look at whether the emphasis placed by Haspeslagh and Jemison (1991) upon 'value creating' acquisition styles is justified in terms of the distribution of our responding sample and whether they are more 'successful' than 'value capture' acquisitions. These enquiries are specifically addressed through propositions one and two, which suggest that 'value capture' acquisitions do not deserve to be down played, relative to 'value creating' acquisitions, in terms of occurrence, and, proposition three, which

suggests that there is no difference in terms of success between 'value creating' and 'value capturing' acquisitions.

Haspeslagh and Jemison (1991) characterise 'value creating' acquisitions as experiencing substantial resource interdependency. In the light of the recent focus of the resource-based view upon knowledge as the key resource (Nonaka, 1991, Hamel and Prahalad, 1994, Nonaka and Takeuci, 1995) and the importance of it's transfer (Hedlund, 1994, Spender and Grant, 1996), we shall also examine, though proposition four, whether the transfer of knowledge in an acquisition context is associated with perceptions of success.

Finally we examine the individual acquisition types to assess whether there is any hierarchy in terms of perceived success. This is achieved through proposition five.

4.2 Distribution of acquisition types in the UK

Haspeslagh and Jemison's (1991) acquisition typology places considerable emphasis upon the importance of 'value creating' acquisitions which they describe as Symbiotic and Absorption styles. They also acknowledge the existence of Preservation acquisitions but this 'value capture' perspective is played down. Chapter 2 section 2.4 observes that Haspeslagh and Jemison

(1991) examined just seven acquisitions which cannot be said to be representative of acquisition activity in general. In addition, they focused specifically upon 'strategic acquisitions' which they define as ones where there was strategic capability transfer in related acquisitions. On this basis we should be cautious in accepting their emphasis on certain acquisition styles. Indeed, we have already suggested in chapter 2 section 2.4.1 that there is good reason to expect that the distribution of our acquisitions will shift emphasis away from Absorption and Symbiotic acquisition towards Preservation and maybe Holding acquisitions.

4.2.1 Responding sample distribution

The location of our responding sample cases on the Haspeslagh and Jemison (1991) contingency framework and our slightly different way of operationalising the matrix is discussed fully in section 3.5.3.1 in chapter 3. For the resource interdependency axis the main approach has been to use an average score of resource transfer for our three transfer variables. This is our base model throughout the thesis unless otherwise stated. However we have recognised that resource interdependency could be just the transfer of one resource rather than all three. We therefore have created a 'weak version'[1] of the matrix which is referred to by name when used. In addition we have also created a 'strong form' which argues that all three variables need to exhibit high levels of transfer for

[1] The reason for the weak and strong forms is discussed in Chapter 3, page 26.

high interdependency to exist. The distribution of cases[2] is summarised in Figure 4.1.

Figure 4.1: Distribution of cases by acquisition type

		Autonomy	
	Low		High
Low	Holding 9 cases **13.0%**	16 cases 25.1%	Preservation 24 cases **34.8%**
Resource transfer	3 cases 4.7%		4 cases 6.3%
High	Absorption 8 cases **11.6%**	2 cases 3.1%	Symbiotic 3 cases **4.3%**

We were rather surprised by the distribution of the data shown above. Haspeslagh and Jemison's (1991) work concentrates upon Symbiotic, Absorption and Preservation acquisitions, with a particular emphasis upon Symbiotic acquisitions, and yet from our data, Symbiotic acquisitions accounted for just 4.3% of all responses. If we then examine where these points actually fall we find that two out of the three Symbiotic cases are only just within the

[2] Actual case locations are shown in Appendix 4.1

box in question (3.3 on the resource transfer axis). There are therefore very few clear cases of Symbiotic acquisitions indeed. We would suggest therefore that the approach adopted by Haspeslagh and Jemison (1991), of concentrating upon data in the bottom right hand corner of the matrix, is somewhat misplaced, at least in a UK context. Our finding is that far more activity is concentrated in the other three types of acquisition. Although our responding sample does appear to be representative of the population on broad measures of bid value and sales, it is conceivable that our finding, regarding the distribution of acquisitions, has resulted from a bias in the responding sample. Sample bias is discussed in Chapter 3, section 3.6.2.2, but it is worth reiterating that less successful acquisitions may be less likely to respond. Symbiotic acquisitions in particular may therefore be prone to under-performance[3].

63.7% of all responses can be said to fall cleanly into the four acquisition types. These responses are shown in Figure 4.2.

[3] To establish whether this is indeed the case, we would need to categorise all the acquisitions in the population, but to achieve this requires disclosure of private information by those companies. By not returning questionnaires, we do not have access, or a substitute for this information.

Figure 4.2: Distribution of pure cases

		Autonomy	
		Low	High
Resource Transfer	Low	Holding 20.5%	Preservation 54.5%
	H'gh	Absorption 18.2%	Symbiotic 6.8%

Note· n 44, th d tr buti n ı nificant at the 01 level (Fisher' exact test)

A significant number f case fall n the b rder between acquisition types. This i particularly true f r the autonomy axis where 28.2% of all cases had average autonomy[4]. In our b qu nt di cu i n of each pure type we also supply figures which include randomly as igned borderline cases as well as for accounti g for potential p sitive bias n the autonomy scale[5].

4.2.2 Preservation acquisitions

Preservation acquisitions accounted for over half of our 'pure' types[6] and the observed value was greater than the expected value although only accounting for

[4] This methodology problem is discussed in section 3.5 of chapter 3.
[5] Where unidirectional relationships are hypothesised across entire scales, all cases are used.
[6] Excluding borderline cases. If borderline cases are randomly assigned, then Preservation cases account for 49% of all cases (Matrix significant at the .05 level). Where there is correction

0.7 of the chi-value. Whilst we had expected a significant number of Preservation acquisitions, as studies such as Datta and Grant (1990), Kitching (1967) and Hughes (1993) had all acknowledged high levels of unrelated acquisitions, and it seemed likely that unrelated acquisitions would fall into the Preservation category, the apparent dominance of Preservation acquisitions is still noteworthy[7].

Section 3.5.3.1 in chapter 3 notes that the strategic interdependence axis can be operationalised in a weak and strong form depending upon ones view of whether resource transfer can be determined by high levels of just one aspect or an amalgam of all three. In both cases Preservation acquisitions remain the dominant style (60% of cases in the strong form and 46.9% of cases in the weak form) and in the weak form accounted for 0.84 of the chi-value. On this basis we can return to our first proposition which suggests that Preservation acquisitions will be significant in number compared with Absorption and Symbiotic acquisitions. We can state that this is the case on a pure and adjusted basis. On a pure basis Preservation acquisitions were the dominant style in this survey and were present in significantly greater numbers than might be expected both from Haspeslagh and Jemison's (1991) treatment and based upon

for positive autonomy bias, Preservation cases account for 40.6% of all cases (Matrix significant at the .07 level).

[7] There is an issue here of the position of the borderline cases. If they are randomly assigned, then Preservation acquisitions continue to dominate numerically although Preservation cases do not depart significantly from the expect value. However, if one takes the view that executive self regard will mean that they overstate autonomy, we find a more or less equal split between Holding and Preservation acquisitions.

probability. However, this dominance was mitigated if adjustments were made for possible positive autonomy bias.

The recognition that the Preservation acquisition style is a major feature of acquisitions in the UK is an important counter-balance to the prevailing emphasis in the acquisition literature on Absorption and Symbiotic styles. We shall return to this theme in our summary section.

4.2.3 Holding acquisitions

The next largest category was Holding acquisitions. This accounted for 20.5% of pure cases[8]. The observed number of cases however was lower than expected in probability and contributed 1.1 to the chi-value[9]. In terms of the weak transfer model, Holding acquisitions accounted for 16.3% of deals which again was less than statistically expected, contributing 1.3 to the chi-value.

If we correct for possible autonomy bias, Holding acquisitions account for similar numbers as Preservation acquisitions with 40.6% of cases and are no longer significantly different from expected values.

[8] Excluding borderline cases. If borderline cases are randomly assigned, Holding acquisitions account for 26% of all cases (Matrix significant at the .05 level). Where there is correction for positive autonomy bias, Holding cases account for 40.6% of all cases (Matrix significant at the .07 level).

[9] In a 2x2 cross tabulation, the critical value for chi is 3.84 at the .05 level. A value of 1.1 for just one cell is therefore noteworthy.

Even in the pure form, the substantial presence of Holding acquisitions is a very surprising finding, and in the model adjusted for autonomy bias, Holding acquisitions rival Preservation ones in significance. This is a particularly interesting find as this type of acquisition was ignored by Haspeslagh and Jemison (1991). Whilst they imply that Holding acquisitions are rare, it would appear that this is not the case. This raises the issue of why these acquisitions are made and how value is added or captured.

With regard to our second proposition, which suggests that Holding acquisitions will be a significant portion of take-over activity in the UK, we can say that they are indeed an important feature, representing a fifth of all activity in our pure responding sample, and 40.6% in our total responding sample.. Explaining this oversight, Holding acquisitions may have been ignored because they were thought to be rare or perhaps managerially rather easy. There would appear to be grounds for the latter point and this issue is discussed in Chapter five.

Holding acquisitions are clearly of greater significance than has been recognised previously. The importance of this observation will be examined in the summary section.

4.2.4 Absorption acquisitions

Our other major category of responding cases was Absorption acquisitions with 18.2% of responses[10]. This observed number was many more than predicted contributing a statistically significant 3.1 to the chi-value[11]. Clearly this is an important acquisition style although in absolute terms, based upon the acquisition literature, we might have expected even more cases. In the weak transfer model we found 22.4% of cases; again more than expected statistically, adding 2.3 to the chi-value.

The acquisition literature together with Haspeslagh and Jemison's (1991) work suggests that Absorption acquisitions are an important acquisition style and this is born out by our findings.

4.2.5 Symbiotic acquisitions

Our smallest category of acquisitions was the Symbiotic one which accounted for just 6.8% of pure cases[12]. This number was significantly less than expected in probability terms, adding 2.1 to the chi-value. The observed number of cases was also far less than expected based upon the emphasis of Haspeslagh and

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[10] Excluding borderline cases. If borderline cases are randomly assigned, Absorption acquisitions account for 16% of all cases (Matrix significant at the .05 level). Where there is correction for positive autonomy bias, Absorption cases account for 14.5% of all cases (Matrix significant at the .07 level).

[11] Even correcting for autonomy bias, Absorption acquisitions still occur in more instances than expected and this is statistically significant.

[12] Excluding borderline cases. If borderline cases are randomly assigned, Symbiotic acquisitions account for 9% of all cases (Matrix significant at the .05 level). Where there is correction for positive autonomy bias, Symbiotic cases account for 4.3% of all cases (Matrix significant at the .07 level).

. If we correct for possible autonomy bias

Jemison's (1991) work. When examined in a weak form model, we arrive at the same picture with significantly fewer Symbiotic acquisitions than we might expect based upon probability, although the contribution to the chi-value is reduced to 1.45. It is not surprising that relatively more acquisitions will become classed as Symbiotic as the stringency of our resource transfer criteria is relaxed, but the result is still a less prevalent acquisition style than we have been led to believe[13].

4.2.6 Discussion

The results from the distribution of our responding sample suggest strongly that Haspeslagh and Jemison's (1991) emphasis upon 'value creating' acquisitions at the expense of Preservation and Holding acquisitions is unjustified. Clearly both Preservation and Holding styles represent an important portion of acquisition activity in the UK, whether viewed from our strong or weak models of resource transfer and whether we examine just pure forms or adjust for potential autonomy bias. It is also worth noting the lack of Symbiotic acquisitions which Haspeslagh and Jemison (1991) suggest as a superior integration style. To an extent we may be able to draw some generalisations from these findings on the broad basis of the distribution of 'value creating' and value capturing acquisitions.

[13] In the model adjusting for potential autonomy bias, Symbiotic acquisitions remain fewer in number than expected.

It is worth noting that 75% of pure responses exhibited low resource transfer whilst in our weak transfer model this level was 63.3%[14]. We had anticipated, largely based upon extant literature, that the majority of cases would exhibit a substantial transfer of resources as this is where value is supposed to be realised. Our findings show clearly that the majority of acquisitions in our responding sample are not founded upon substantial resource transfer but rather upon 'value capture'[15].

This is an important observation on the way in which acquisitions are handled in the post-acquisition phase and strongly suggests that in the UK the majority of acquisitions are bolt-on additions. This might be a reflection upon the intentions behind why such acquisitions are made or indeed a recognition of the difficulties and complexities of transferring capabilities in the post-acquisition phase. To resolve this issue, the next section will examine the assumption that acquisitions experiencing capability transfer will be more associated with post-acquisition success than acquisition styles which capture value.

[14] 72.9% of our total responding sample

[15] This observation, in terms of relative importance of acquisitions categories and relative proportions of value creation (33.3%) and value capture (66.7%), also holds true for a sub-sample that examines the weak transfer form for cases where in excess of two years has elapsed since acquisition.

4.3 Acquisition styles and post-acquisition success[16]

4.3.1 Value capture versus 'value creating' acquisitions

Haspeslagh and Jemison (1991) make a strong case for linking capability transfer with successful acquisitions; 'The true measure of success is the notion of creating value through acquisition rather than capturing it' (Haspeslagh and Jemison, 1991). For Haspeslagh and Jemison (1991), 'value creating' acquisitions are either Absorption or Symbiotic. In section 2.4.2.2 of chapter 2 we suggest that this automatic prescription of resource transfer leading to greater success may well be flawed. The act of transferring capabilities may cause value destruction (Haspeslagh and Jemison, 1991: 142) and the link between the transfer of capabilities and success may be more complex and difficult than Haspeslagh and Jemison (1991) suggest (Almeida, 1996, Szulanski, 1996). In addition there is evidence that non-synergistic acquisitions are viewed as highly successful (Anslinger and Copeland, 1996) which appears counter to the argument for resource transfer.

To assess whether acquisitions experiencing 'value creation' are more successful than 'value capture' acquisitions, we examined four broad perceptual measures of success; whether the acquisition was a success overall; whether the cost of capital had been recovered; whether it was successful in terms of group

[16] Before we embarked upon looking for associations between acquisition styles and post-acquisition success, we tested the main pre-acquisition variables, identified in Chapter two, which are said to be associated with post-acquisition success. Our results, contained in Appendix 4.2, showed no significant associations, which supports our argument that pre-acquisition characteristics are poor indicators of post-acquisition success.

profitability; and whether it had achieved it's strategic objectives. We were aware that the length of time that had elapsed since acquisition might affect the perceptions of success. A bivariate correlation analysis between our four broad perceptual measures and the amount of time elapsed since the acquisition showed significant positive associations[17].

The relationship between elapsed time and perceptions of success was not linear. We noted a slump in the number of returns received after eighteen months and an increase in the number of unsuccessful acquisitions[18]. This fall in returns is worth noting as follow up telephone calls, where eighteen months to two years had elapsed, found Managing Executives less welcoming than at other times. This may be an indicator of difficulties in the integration becoming apparent. Although our numbers are rather small, this suggests a time frame in which all the complexities of a deal unwind and become apparent. It is interesting to note that Gabarro (1987), whom we shall be referring to in chapter 7, suggests that it takes about two and a half years to fully take charge of a company.

Mindful of the distortion that time elapsed can cause, Table 4.1 presents the results of the Mann-Whitney Wilcoxon sum rank test for differences in

[17] Time elapsed against; Overall success (.08 level); recovering the cost of capital (.01 level); group profitability (.004); achieved strategic objectives (.06)

[18] A third of acquisitions perceived as unsuccessful occurred after two years had elapsed

perceptions of success between 'value capture' and 'value creation' acquisitions for all of our responding sample and two sub-samples[19].

Table 4.1 Value creation versus 'value capture' acquisitions

Success variables	**Chi square** for all respondents	**Chi square** for acquisitions over 18 months	**Chi square** for acquisitions under 18 months
Overall success (q9a)	.39	.36	.58
Recovering cost of capital (q9b)	.91	.20	.18
Group profitability (q9c)	.74	.25	.84
Achieving strategic objectives (q9d)	.78	.35	.79
n 58	**n= 58**	**n = 31**	**n = 27**

It is clear from Table 4.1 that none of the broad measures of success for the responding sample associate to a greater extent with 'value creation' than 'value capture' acquisitions. When we altered the definition of 'value capture / creation' by adopting weak and strong form models of resource transfer we again did not find any significant results[20]. This supports our third proposition that Absorption and Symbiotic acquisition will not be perceived to be significantly more successful than acquisitions experiencing low capability transfer and strongly suggests that the link between resource transfer and

[19] We found that correlation between success and the time elapsed were not significant for a sample consisting of deals under 18 months and for a sample consisting of deals over 18 months.

[20] We also ran all the tests omitting acquisitions under 5% of parent sales (Kitching, 1967) and also controlled for any respondent bias by running the test firstly for just incumbent respondents then new Managing Executives. No results were significant.

success is still be demonstrated. In broad terms, success can be achieved equally between 'value capture' and 'value creation' approaches.

4.3.2 Knowledge transfer and perceptions of success

The resource-based view has made significant claims for the importance of knowledge as the key source of competitive advantage and attention is focusing upon its transfer (Spender and Grant, 1996). Whilst we have not found a significant association between aggregate resource transfer and perceptions of success, it is possible that any association with knowledge may have been diluted by other resource transfer items.

Table 4.2 shows the results for the total responding sample and for a sub-sample of cases where eighteen months or more has elapsed since acquisition.

Table 4.2: Knowledge transfer and perceptions of success

Success variables	**Kendall correlation coefficient**	**Significance level** (one tailed test)
Overall success (q9a)	.2644	.038
Recovering cost of capital (q9b)	.2446	.051
Group profitability (q9c)	.2051	.083
Achieving strategic objectives (q9d)	.3322	.014
	n=33	

The above shows that there is weak evidence to support the notion that knowledge transfer is significantly associated with perceptions of success. Where more time has elapsed between the acquisition and the return of the questionnaire, the associations appear stronger[21]. For instance, in terms of overall success, for all respondents, 81.3% of those citing low knowledge transfer said the acquisition was successful and 18.8% said it was unsuccessful, whereas all of those citing high knowledge transfer said the acquisition was successful. For respondents in acquisitions over eighteen months old, in terms of overall success, only 50% of those citing low knowledge transfer said their acquisition was successful. However 100% of those citing high knowledge transfer said the acquisition was a success.

Whilst one might argue that over time more knowledge will be transferred, it is worth noting that there is no significant correlation[22] between knowledge transfer and the time elapsed between acquisition and questionnaire returns. For our sub-sample of cases where less than eighteen months has elapsed, there was no significant association between the broad perceptions of success and knowledge transfer[23].

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Success variables	Phi value for all respondents	Phi value for acquisitions over 18 months
Overall success (q9a)	.35	.57
Recovering cost of capital (q9b)	.21	.57
Group profitability (q9c)	.46	.64
Achieving strategic objectives (q9d)	.31	.64

[22] Kendall's tau - b was used as the knowledge transfer five point Likert scale is an ordered category. The correlation of .025 was not significant at .786; n=70

[23] (see overleaf)

From these results we can agree with our fourth proposition that knowledge transfer will be associated with broad perceptions of success. This provides empirical support for the recent importance ascribed to knowledge and its transfer in general and specifically contributes to showing the importance of knowledge transfer in an acquisition context. Furthermore, there is evidence that knowledge transfer only becomes significantly associated with perceptions of success after eighteen months[24].

It is worth considering why knowledge transfer is significantly associated with perceptions of post- acquisition success whilst our aggregate resource transfer items were not. One reason may concern method for, as noted above, we took extreme values of knowledge transfer, omitting the mid point, and this may have resulted in a clearer picture. However when selecting our aggregate resources on a similar basis, this did not appear to be an explanation. We suggest therefore that the effect of knowledge transfer was diluted by the other resource transfer items.

In summary we might suggest that the resource transfer axis could be simplified to knowledge and information transfer as this has clear associations with

Success variables	Chi value for acquisitions under 18 months
Overall success (q9a)	.16
Recovering cost of capital (q9b)	.59
Group profitability (q9c)	1.0
Achieving strategic objectives (q9d)	.61

[24] This is a crude estimation based upon examining Mann-Whitney results for six month intervals. After 24 months the results are consistently significant for all four items.

success[25] and with change[26] which is the subject of the next chapter. In addition it is worth recording that the transfer of knowledge and information is orthogonal to the autonomy axis.

4.3.3 A hierarchy of acquisition styles by success

So far we have concentrated upon the resource interdependency axis for associations with perceptions of success. The Haspeslagh and Jemison (1991) contingency framework also recognises the important role of autonomy in affecting post-acquisition outcome. A reduction in autonomy of the acquired company can destroy the core capabilities that have been purchased. On the other hand, acquired companies that are under-performing may need to be under firmer control and so lose autonomy. For these reasons, we echo the general view of Datta and Grant (1990) that acquisitions with higher autonomy are likely to be perceived as more successful than those with low autonomy.

In section 2.4.2.4 of chapter 2, we suggested that there may be a hierarchy of success amongst Haspeslagh and Jemison's (1991) acquisition styles where high resource transfer acquisitions with high autonomy are likely to be perceived as more successful than ones with low autonomy, and low resource transfer

[25] Knowledge and information transfer was also significantly associated with six out of the seven other success variables in question 9.

[26] Knowledge and information transfer was significantly correlated with change with an r of .328 and a two tailed significance of .006; n=69

acquisitions with high autonomy are likely to be more successful than those with low autonomy.

Using a Kruskal Wallis 1-way ANOVA for our four acquisition types we looked for significant differences between them in terms of perceptions of success - 'self et sequentia perceived'. The results for our responding sample are contained in table 4.3.

Table 4.3: Acquisition type against perceptions of success

Success variables	**Significance level** for all respondents	**n**
Overall success (q9a)	.56	49
Recovering cost of capital (q9b)	.87	41
Group profitability (q9c)	.73	44
Achieving strategic objectives (q9d)	.25	42

Table 4.3 shows that a hierarchy of success amongst the acquisition styles is not apparent[27]. For all the success items in table 4.3 we found that at least three quarters of respondents in each acquisition type said the acquisition had been successful.

Mindful of the previous discussion we ran the test again using a definition of acquisition types based upon autonomy and knowledge/information transfer, but again without significant results. This suggests that autonomy is not associated

[27] Similar results are achieved if we use the whole responding sample and adjust for positive autonomy bias.

with success. Indeed when we tested for this by using a Kendall's tau-b correlation we found no significant associations with any of our success variables and the level of autonomy experienced by the acquired company.

Perhaps the result that perceptions of success are not associated with a particular acquisition style is not so surprising for, as Haspeslagh and Jemison (1991) have suggested, different situations demand different styles. On this basis we should be wary of recommending any one acquisition style over another based upon performance outcome.

4.4 Conclusion

Our five propositions set out in Chapter two were aimed at determining whether Haspeslagh and Jemison's (1991) concentration upon 'value creating' acquisitions was justified in a UK context and whether these 'value creating' acquisitions were indeed more successful than 'value capture' ones.

We have established that the implied importance of 'value creating' acquisitions in Haspeslagh and Jemison's (1991) work is a distortion of acquisition activity in general. In the UK we found that 'value capture' acquisitions were dominant, accounting for 72.9% of our responding sample, and in particular that the Holding acquisition style, rather than being insignificant, is an important

category of acquisition activity. This suggests that most corporate acquisitions during this time frame were bolt-on businesses and this finding is supported by question eight in the questionnaire which asked executives for the main reasons behind the acquisition. In 47.1% of cases, the acquisition was explicitly described in terms of just the purchase of assets even though the survey explicitly concentrated upon corporates and avoided pure asset purchases. For example, comments included, 'a cheap opportunity to acquire assets', 'a book of business at a discount to embedded value'.

We also found that 'value creating' acquisitions do not appear to be more successful than 'value capture' ones. This supports the recent arguments by Anslinger and Copeland (1996) that non-synergistic acquisition can be very successful. If we buy in to the attractive notion that 'value creating' acquisitions should lead to greater value than 'value capture' ones, and our next paragraph presents some evidence that resource transfers can have a positive effect, then our result suggests that there could be implementation difficulties with value creating acquisitions which impair performance.

Whilst resource transfer in itself does not appear to be associated with broad perceptions of the success of acquisitions, the transfer of knowledge and information is so associated. This provides empirical support for the importance of knowledge and information transfer as emphasised by the resource-based school. It also flags up the issue that other forms of transfer may have a mitigating effect upon the effect of knowledge and information transfer.

When we looked for a hierarchy of success amongst acquisition styles we were unable to find such a sequence. Mindful of our observations in terms of knowledge and information transfer being associated with success we tried re-framing our acquisition styles by knowledge and information transfer against autonomy and yet were still unable to ascribe higher levels of success to one type or another. From this we concluded that the mitigating factor was autonomy which does not appear to have a strong association with success as implied in much of the organisational behaviour literature on acquisitions. We therefore suggest that different acquisition styles are equally likely to succeed and that they should be chosen according to the type of integration required rather than any thought that a particular style is more successful.

The next chapter will look inside each acquisition type to see whether there are significant differences between each in terms of the type and volume of changes that are made. After characterising each acquisition type, chapter five will examine the reasons why each acquisition style was adopted.

5. Change in dominant acquisition types

5.1 Introduction

In this Chapter we shall identify and systematically examine the main post-acquisition changes within the acquisition types of our responding sample. This is intended to address an important limitation in Haspeslagh and Jemison's (1991) work, where change has been handled in a partial and rather superficial way. Our comprehensive treatment of change, across all acquisition types, will enable us to test the robustness of the Haspeslagh and Jemison (1991) framework. In so doing we hope to develop a more detailed picture of change in all, rather than a selection, of acquisition types.

In Chapter two we developed a number of propositions relating to post-acquisition change, propositions 6 to 12, and also observed in table 2.8, that

they could be grouped around the relationship between change and autonomy and / or resource transfer. In this chapter, we will look specifically at the issues of aggregate change against autonomy, and against resource transfer. Thereafter we will concentrate upon identifying characteristic variations in change between acquisition types to generate a rounded picture for each[1].

To aid us in our task we shall be drawing upon the questionnaire data to provide statistical evidence of the frequency of change across acquisition types and interview data to provide a level of understanding and explanation for our findings.

5.2 Cameos[2] of acquisition types

Chapter four suggested[3] that Preservation is the dominant style of acquisition, with over half of all deals, followed by Holding with 21%, Absorption with 18% and latterly Symbiotic with 7%[4]. To characterise each acquisition type, the following cameos of post-acquisition change are based upon one highly involved informant[5] in each acquisition. These are not necessarily complete or

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[1] We felt this approach was preferable to an exhaustive treatment of many propositions relating change to autonomy and or resource transfer which would result in fragmentation.
[2] Executive names, titles, and company situations are disguised to protect identity.
[3] For deals falling cleanly into categories (n 44)
[4] See figure 4.3 in Chapter 4. For the full responding sample with borderline cases equally allocated, the percentages in each category are 49%, 26%, 16% and 9% respectively.
[5] Actual examples were used rather than synthetic cases which can lack in 'realness' and seem contrived. The disadvantage of the real case is that the core elements appropriate to the 'type' may not always emerge as clearly as the 'ideal' picture.

impartial accounts but seem to be representative of the other interviews collected for each acquisition style.

5.2.1 Preservation acquisitions

These are characterised in Haspeslagh and Jemison's (1991) framework by low resource transfer and high autonomy. There is very little change in the post-acquisition period and the emphasis is upon maintaining the status quo.

Micrometer, in the cameo below, is fairly typical of many Preservation acquisitions as very few changes are made as a direct result of the take-over. In particular the core capability remains intact and indeed is defended against change by the parent. The emphasis is very much to keep things as they are as they work.

Utility PLC's acquisition of a Micrometer PLC

Micrometer PLC was a very profitable, market leading, precision engineering company with several hundred employees. It was acquired[6] in 1991 by a major utility company, Utility PLC, who wished to keep the management. In the words of Andrews, the Managing Director of Micrometer, 'without management they were going to be a bit adrift'.

[6] Actual bid size has been disguised to protect the identity of the company. Appendix 3.3 gives a rough indicator of bid categories.

Post-acquisition there was a down turn in performance and a general malaise in Micrometer for four months due to uncertainty surrounding new ownership and an enormous fear of change. Micrometer's staff felt big corporates attitude would be 'we'll just close it'. 'Everybody expected a big wave of change but it never happened. Utility PLC didn't have anyone driving it'.

Post-acquisition, Andrews's felt 'Head Office didn't know what their requirements were!' Apart from insisting that Micrometer adopt their reporting format within two months, and saying that costs should be reduced, 'they'd no clear pattern of what they were trying to achieve'. Whilst up-dating Head Office, Andrews was asked, 'Why do you just bring me problems?' He replied, 'I'm not bringing you problems, I'm telling you what's happening!' Indeed every business Utility acquired complained, ' What is the group going to do about this, and what is the group going to do about that?' to which Andrews replied 'I've learnt that they're going to do nothing, so you bloody well get on with it and keep your head down'. 'After-care was non-existent'

Head Office did not drive change in Micrometer except to insist upon control of capital expenditure, parent financial reporting format, and to suggest cost reduction. Their managing of Micrometer consisted entirely of monitoring ever-more stringent budget requirements. In response, Andrews ensured that even during a difficult market, 'we've managed always to perform'. Achieving budget kept Head Office at bay and provided the budgets were done in the right way, flexibility to match budgeted profit could be ensured.

Keeping a low profile has been a successful course of action. 'At the end of the day I decided to keep out of the way and let them carry on with the politics up there and just produce results; there's nothing better than just producing results'. Indeed Micrometer has consistently performed well post-acquisition. 'If we perform, we get the investment. If we don't perform, they'll come and dig around in it and we don't want that'.

Soon after the acquisition Andrews took the initiative to make a few changes directly relating to the change in ownership. 'Because I had more time to spend on the business I had more time to identify what needed doing next and to drive it forward'. The finance director was retired and parent financial reporting welcomed as an improvement upon the previous system. An executive position which handled insurance and banking arrangements became superfluous as it duplicated a function in Head Office.

Andrews made further changes in response to the declining market. The changes 'weren't necessarily to do with the take-over. We were making changes because I thought it was appropriate to make changes'. These changes 'would have happened even if we had stayed private'. 'Most changes are market driven'.

For Andrews, the worst part of the acquisition was his lack of involvement with Head Office which spent 'more time looking at things and doing nothing'. During the post-acquisition phase, Head Office was characterised by rare visits

and remote decisions. They did not appear to have a sufficient understanding of what was going on in the companies. Andrews took action because he felt that if he waited for clear instructions from Head Office, 'I could have still been sat here'. 'I haven't taken that tack because I believe that having taken the staff into a deal, I owed it to them to do the best for them'.

Being acquired by Utility PLC has allowed Micrometer to raise its business to the next level. There has been some limited nurturing as capital investment in computer systems, although they could have paid for this themselves, and Andrews has been able to stand back to allow the management standard to rise. Andrews has been moved up to run a number of European Businesses and there are now strong moves some five years after the acquisition to realise synergies with other group companies.

Micrometer does exhibit typical features of Preservation acquisitions in that there is a generally low level of change and an emphasis upon maintaining core operations. The main area of change was focusing upon improved financial reporting. The Managing Executive remains and shows a bias for action although in the case of Micrometer, there is perhaps more change than typical due to the market downturn. There is a clear sense of distance from the new parent, which doesn't really know what to do with them, but also a fear that the inexperienced parent might decide to take a greater interest and damage the business. For this reason there is considerable attention to achieving results.

There has been some limited nurturing from the parent, but this could have been achieved by Micrometer in its own right.

At the other end of the spectrum, Absorption acquisitions exhibit a great deal of change as a direct result of being subsumed within the new parent.

5.2.2 Absorption Acquisitions

These are characterised in Haspeslagh and Jemison's (1991) framework by high resource transfer and low autonomy. Packers PLC is a fairly typical absorption case as they made very substantial change to Edibles PLC. In particular Edibles' identity was removed and efforts were concentrated on de-duplicating activities to drive down costs.

Packers PLC acquisition of Edibles PLC

In 1993, Packers PLC purchased Edibles PLC, a medium sized, family controlled, profitable food manufacturing business, as part of a sector rationalisation.

Whilst the negotiations had been handled by board members, the integration was managed by Keaton, finance director of a subsidiary, - 'I had to say, 'Well - what's going to happen?''

There was a planning period of 7 - 8 weeks from when the take-over was agreed. 'We had been able to have a cursory walk around Edible PLC before the acquisition but we were not allowed to check it out fully. We had a gut feel that something would be closed but we couldn't be sure which factory'.

'I was then parachuted in and we had a big meeting of managers and pushed out plans of activity for who's responsible for what'. 'We overlaid a layer of management on top of their management and effectively we had people working side by side over that period of time, their people were running the activity but if we wanted to influence them we did!'. 'We took the view, 'Well, lets give ourselves a period of time during which, if people don't get on then guys will leave anyway, but we need to spend five months establishing exactly who the right people are. We know broadly the structure that we want, but lets create some interface between the organisations that allows us to start the planning process'. 'Everybody knew that we were likely to do some rationalisation of factories, depots and we didn't know enough to go in there day one and suddenly do things'.

'All the directors including the FD, the company secretary, had all gone except for one who we made Managing Director of one of the manufacturing operations' and ' the directors of 3 small businesses remained, because we thought we were going to sell them anyway'. 'We don't want a board of directors floating around and I think they knew that. It was the operational guys that we might want to keep'.

'We managed (Edibles PLC) as a separate activity' for five months and reported it separately in the management accounts. During that time 'I went through the process of agreeing budgets in effect for the part of the activity that was going to be split into each of our separate areas'. Keaton then met with the managers who had spent two months ghosting the management and asked what they thought compared with the earlier ball park paper. In one business area 'people said 'its going to cost us twice as much to build a bloody factory!' - great!' In another they said 'Oh fine, easy, we'll just integrate it. When can we start?'

'Before the end of the five month period we had already closed down one of their factories and moved the activity into our factory'. Their factory was running probably at 60% - 70% capacity whilst ours, three times the size, was running at 70% capacity. 'You bang the whole thing in and it runs at 100% capacity. So it just made sense. We incurred a redundancy bill and the wrath of lots of people and got on and did it'.

'The five months really gave us time to completely get rid of every bit of identity that was Edibles PLC.' The Head Office was closed during the first five months. The period also gave them time to work out how to link computer systems together so that the financial reports could be produced without having a separate section for Edible PLC and 'so everybody understands how it fits together'.

'We had come up with a way during that 5 months that we understood who the good people were and who we wanted to keep and also we didn't get the people

thinking well I'm going to be kicked out and therefore ruin our relationships with a couple of big customers which could completely destroy the rationale for doing the acquisition'.

As soon as the 5 month period was up 'a lot of people were banging tables saying we've got to get costs out'. 'We ought to be able to run this lean and efficient. We don't have all those people, so we kicked them all out'.

There were some difficulties in removing so many people; 'what we didn't do was say, well they must be doing something'. As a result a significant problem resulted in one factory and in terms of tax records 'the linkages from one record to another has effectively gone because it was within individuals heads' and those people have gone.

'Where things went wrong is we put it all into Packers PLC and then went, ah fine, its part of Packers PLC now' 'We sort of stitched the accounting systems together, put somebody in charge of it and assumed it would work. And yes, it seemed to be fine for the first couple of months, but we are still, still having difficulty'. Superficially we put the computers together to make them work.' What we didn't do was to say, 'well the computers are talking to each other, do the people? Are the people who are operating the computers talking to each other? So we fixed the systems but we didn't fix the procedures'.
Keaton 'had to use all my persuasion and charm to get anything done. I was three grades lower than most people who I was getting to do things'. 'I sat there

face to face with three general mangers and they're going, 'Who's this idiot from Head Office'. 'I was sort of shuttling backwards and forwards as a diplomat rather than as a manager'. Keaton felt he needed a larger full time team which would have speeded the process and been more comprehensive. 'There are a number of things lurking around that aren't absolutely critical but are now causing pains and difficulties because we didn't tie everything off as neatly as we could have done'.

Despite these problems, overall 'I think all the initial phases went reasonably smoothly because we understood the business - it was business that was familiar to us'. We could talk the same language. We could plan it because we knew the things that would be issues.

Packers PLC's acquisition of Edible PLC is a good example of the Absorption style. In clear contrast to the Preservation cameo above, the emphasis is upon considerable change to the acquired company in order to ensure compatibility with the parent operation. It is interesting to note that next to nothing is mentioned of customers which shows the inward focus of management on handling the complexities of internal integration. In addition the effort is entirely on reducing costs. There is no mention of how value might be created in the future and an overwhelming sense that once all the cost cutting has happened then everything from the acquisition has been achieved.

The third main type of acquisition identified is the Holding acquisition where considerable change was recorded.

5.2.3 Holding acquisitions

These are located in an area of low autonomy and low resource transfer on Haspeslagh and Jemison's (1991) framework. However, they do not characterise Holding acquisitions except to say that these acquisitions might be traded. We therefore have little guidance as to what changes we might encounter in this acquisition style.

The acquisition of Transistor PLC seems representative of Holding acquisitions as it experiences high levels of change to re-establish a sound footing for the business. This is achieved whilst remaining distinct from the parent company.

Circuit Board PLC acquisition of Transistor PLC

Transistor PLC, a loss making electronics business, employing a few hundred people, was acquired in 1992. Its acquirer, Circuit Board PLC, had a subsidiary with clear overlapping interests.

Post-acquisition, Stanton, Chief Executive of Transistor said 'the chap with whom I had been negotiating handed me the Circuit Board PLC procedures, manuals and piles of forms and I said, 'well thank you very much, I was

expecting something like this. When can we actually have a meeting to discuss strategy?' He said 'we've got a board meeting coming up in four weeks time, we'll discuss it then'. 'We never did!'. 'I had just one meeting with Circuit Board PLC in the month post-acquisition'.

'There was no discussion of strategy which should cover marketing, production, personnel, financial, I mean the whole gambit. They never discussed with me or my other co- directors what we wanted out of the deal and what we were prepared to put in post-acquisition'.' Nobody came to me and said, 'You've built this thing up over the last 13 years, what do you want out of it?' 'There was no attempt to motivate the staff'. 'It was just 'Carry on''. 'People came to me and said, 'What now?', 'What are they going to do; how can they help us?' and I said, 'I have no idea - I'm sure it will all become clear' - but it never did'.

'Their financial reporting structure was very good'. It was introduced on day one. 'They required daily cash orders, sales, report daily and a weekly summary report P&L. I believe they received far too much information'. 'What was missing was any reaction to those. The only reaction we got was 'group cash is tight, delay paying creditors for another two weeks''.

The first serious discussion was three months post-acquisition at the September board meeting. Transistor was not making budget and the divisional director asked what Stanton was going to do about it. He said 'I ought to sack half the staff and restructure. He said good idea. Why didn't you do it before and I said I

don't want to get rid of any assets, until I know what you want to do with them. He said what we need is to get back on budget! I said the cost of sacking in money terms is X but more importantly in terms of achieving our strategy it's XYZ and means putting back our strategy quite severely. What he said is 'I want profit !''

'When I had the green light to do my pruning exercise I took out the group finance director and group functions as there is no group and fired the co-founder of Transistor, which was a horrible thing to do. I put myself in charge and got rid of half the staff'. Sales and marketing were cut - 'I don't think there was any department that was not touched'. 'I radically cut down the development programme in order to reduce development expenditure by 25%, to make people understand that Circuit Board PLC was after profit short term rather than growth long term'. 'We cut customer and country specific applications'. 'We are paying for it now in that we have lost our market share which has quartered'. 'I downgraded director's cars' reduced salaries and cut perks. 'We all took a knock'. 'In my first year I turned Transistor around'.

Other than financial expertise, parent head quarters supplied little else. 'There were things that I was expecting them to encourage such as MRP or quality control systems but none was forthcoming. The main emphasis was on financial controls'. 'Their technology skills were poor' and 'marketers don't exist in Circuit Board PLC'. Nevertheless the corporate style and logo were changed.

Liaisons with other Managing directors in the group were not encouraged. 'I said to the divisional Managing Director, 'You've got a very modern factory making electronic equipment, why don't I see if they will do our production for us. And he said 'Well you know, just carry on as you are, you've got your budgets, there is nothing in the plan for that''.

When Stanton took the initiative to try to realise synergies he met considerable resistance. 'I phoned up one subsidiary (with synergistic possibilities) to say, 'I think we ought to get together. You and I know each other fairly well; I know what you're doing and you know what I'm doing but only on a fairly superficial level. Why don't we get together to see how we can make 2+2 = 5'. He said 'That's not my brief. My brief is to continue with the plan and budget I've got and stuff you'.

Post-acquisition 'we were left in a complete vacuum. All we did was carry on. I had a futile role of Managing Director'. 'I was exceedingly frustrated and mystified that I never had a discussion with any board member of Circuit Board PLC about the future of the company. 'Most surprisingly to me was no discussion as to the potential synergy between Transistor and the subsidiary company'.

After pushing for synergy in the division, Stanton was promoted to Deputy Chairman of the division but in the process lost direct authority to make

changes. Whilst he could recommend changes to the Managing Directors, they were profit responsible for their operations and so no synergy happened.

Holding acquisitions are clearly characterised by substantial change carried out in isolation from the rest of the group. The focus of this hermetic exercise is upon turning the acquired company around and so great emphasis is placed upon reducing costs and improving financial strength. This is often achieved at the expense of 'drawing a line through the Managing Executive's strategy' which leads to considerable frustration upon his part. Once the budgets are achieved there is a post-acquisition lull as no further input comes from the parent. This sense of drifting in a vacuum has a deleterious effect upon the Managing Executive.

5.2.4 Symbiotic acquisitions

We have very few Symbiotic cases from which to draw a representative one. The following case is located most clearly within the Symbiotic part of the contingency matrix.

Haspeslagh and Jemison (1991) see Symbiotic acquisitions as offering the greatest potential for gain. They are characterised by high autonomy and high resource transfer. This state is something of a paradox as these factors can interact to the detriment of the acquired company.

The acquisition of Homeland PLC is a good example of a Symbiotic acquisition as it shows how every effort is made to maintain the core of the acquired company, whilst de-duplicating and investing to achieve substantial change in the enlarged group. There is clear attention to carrying out change in a very sensitive and careful way.

Fortress PLC acquisition of Homeland PLC

Fortress PLC, a food manufacturer, acquired Homeland PLC, of the same industry, in 1993 during a wave of sector consolidations.

Vaughan, corporate development director of Fortress prior to the bid, was appointed CEO of the acquisition when the board of Homeland resigned shortly afterwards. 'With the board leaving, we discovered that they had not been running the company, but their corporate position in the market place. The good news for us was there was a level below that who were effectively running the company and running it very well. We were not going to come in and change them, we were going to let them be their own masters'. However, 'in press terms, it had been a hard fought acquisition and the confidence of the management team was badly shaken. It was very important for us to maintain the establishment and the morale'. 'If you cannot succeed in giving that confidence, then you run a very high risk of losing folks'. 'We actually lost only one senior manager, and he left for personal reasons, which is astounding'.

Vaughan said he 'was able to develop a spirit, a camaraderie and an approach that this take-over isn't a bad thing - 'where are the benefits we can get out of it? Lets not be the wounded hurt little company that's been acquired by this large bidder because we're prouder than that - lets show how well we can make it work''.

The previous management team 'did not spend money'. 'One of the very first things changed was, we completely renovated the office block, because it was the pits - there were literally buckets on the floor to stop water coming in. It was an investment, a big sign'. Vaughan believes he 'would have spent five times that looking back, because it was a very, very important signal'. He also instated a training programme and we actually saw improvement. 'We didn't come down and say, you will do training in x, y and z. We said, there is a training programme in place - come and tell us what you want'.

There was clear evidence of engaging staff from both companies to drive changes forward. 'We were, always, always aware that we should balance the team across incumbents from the two businesses. It got people closer together and it showed they were equals in the project and we were at pains to make sure that a certain number of projects were led from one side of the company and an equal number from the other'.

In terms of the major changes, 'we fairly quickly separated the sales and marketing and commercial activities of both companies away from the production capabilities and resources of both companies. We set up three divisions; a Homeland sales and marketing division, a Fortress sales and marketing division, and we took out manufacturing, production, stock holding, warehousing, from both companies and combined them into a central division which was our manufacturing and operations division'. 'We decided that the area where more synergies could be achieved, but could easily be sold to both management teams, were in the manufacturing and production side'. One of the Fortress manufacturing plants was closed down and, with a substantial capital injection, the Homeland plant was able to take on the additional volume. Vaughan increased the focus of the sales and marketing parts by stopping Fortress's involvement in the volume business and by transferring those activities into Homeland. In return, the development potential brands in Homeland were transferred to Fortress which had considerably more experience and presence in this area.

'We wanted to give a very strong signal that we were keeping these companies separate. By transferring the skills and expertise and type of business from one company to another, which we were saying fitted better in one that the other, we felt that, although not always the best way to run the business, it was a very clear demonstration that there were two separate operations here, which gave a degree of confidence and commitment to the people who were in both companies'

The Information technology system at Homeland needed replacement and so the IT system was re-engineered for both companies. 'It would have been wrong of us to say that we have an all singing, all dancing IT system and dump it on Homeland. One sees companies who say, 'well the new company will just run our systems'. I know we didn't do that. I'm glad we didn't do it and I think we were smart not to do it. We designed it with both companies in mind. I took the advice of my (Homeland) management team on what we needed to make it run and what wouldn't help it run'.

'In year three we started looking seriously at the transfer of people'. 'We've always been very, very aware that the danger is that the acquiring company - its all of their guys who get the jobs. Now if anything, if there is a slight imbalance, its probably in the favour of the acquired company'. 'We acknowledged that you could be an expert IT person in one company as the other'. It was slightly more difficult on the sales side, 'but I'm not saying its impossible to transfer because we have transferred a number of folks'.

'I would judge the deal in terms of continuing development of companies, continuing profit development, the retention of the right staff, the development of the business, the retention of the customer base, our efficiency levels, our cost base. On all those things we have more than achieved'.

This cameo has supported Haspeslagh and Jemison's (1991) observation that the acquired company needs to be treated very carefully to allow the building of mutual trust and confidence so that substantial changes can be made to both companies. The emphasis is to avoid de-stabilising the acquired company through making changes. Every effort is made to maintain the acquired company's identity and, contrary to the other acquisition types, there are big signals to show good intentions in terms of investing in assets and conspicuous efforts to involve acquired employees. For changes to happen, the acquired company management team needed to buy into the decision and there are several examples where they influenced the outcome for both companies. The emphases of change are for mutual benefit between the companies, in particular where there was duplication of operations such as in the manufacturing and production side, and for greater specialisation, where they were maintaining the distinctiveness of each company's identity as in marketing and sales.

5.2.5 Cameo Summary

The cameos illustrate that the four acquisition types are quite distinct in nature. In terms of volume and focus of change, they might be shown as follows;

Figure 5.1 Acquisition type by volume and focus of change

		Volume of change	
		High	Low
Focus of change	Stand alone	Cut back to core [Holding]	Preserve and add to core [Preservation]
	Mutual	De-duplicate both ends and eliminate differences [Integration]	De-duplicate and invest to enhance differences [Symbiotic]

This depiction already augments the findings of Haspeslagh and Jemison (1991) who do not give guidance for Holding acquisitions, and also raises the issue in Symbiotic acquisitions where we find a clear emphasis upon enhancing differences whereas Haspeslagh and Jemison (1991) suggest that the essence of such acquisitions is amalgamation.

The next section identifies differences in aggregate levels of change by acquisition type, and proceeds to show how these differences continue for seven key dimensions of change.

5.3 Key dimensions of post-acquisition change

Chapter three highlighted our belief in parallels between the changes that take place in turnarounds and those that occur in the post-acquisition phase as both are crisis situations (Slatter, 1984: 13, Eccles, 1993) where there is a wish to achieve marked improvements in performance.

Sharpbenders (Grinyer, Mayes and McKiernan, 1988), exhibited eight dimensions relative to control companies which were critical to improved performance. We suggested that if there were indeed parallels between post-acquisition management and turnaround management, then we would expect to find similarities in the changes that took place. Table 5.1 below compares the key dimensions of change for Sharpbenders with the acquisitions surveyed.

Table 5.1 Key dimensions of change for Sharpbenders

% of firms citing one or more variables in each factor

		Sharpbenders	*% difference from controls**	**Acquisitions ****	*% difference from Sharpbenders*
1	Major changes in management	85	*55*	93	*8*
2	Stronger financial controls	80	*10*	90	*10*
3	New product market focus	80	*0*	83	*3*
4	Improved quality and service	55	*5*	54	*(1)*
5	Improved marketing	75	***45***	60	*(15)*
6	Intensive efforts to reduce production costs	80	***50***	84	*4*
7	Reduced debt	50	***(30)***	50	*0*
8	Windfalls	85	*15*	23	*(62)*

* Contained in Sharpbenders study (Grinyer, Mayes and McKiernan, 1988) ** The acquisition survey questions for these items are discussed and matched to the Sharpbenders study in Table 3.2 of Chapter 3.

Source: Sharpbenders (Grinyer, Mayes and McKiernan, 1988), Survey (Angwin, 1995)

It is clear from table 5.1 that for six out of eight items, acquisitions see the same or greater levels of change than Sharpbenders. In particular, for most of the items regarded as critical for Sharpbenders, namely major changes in management, stronger financial controls and efforts to reduce production costs, acquisitions show higher scores.

The exceptions are improvements in marketing and windfalls. Acquisitions make fewer changes in improving marketing than Sharpbenders although more than their control companies. In terms of windfalls[7], acquisitions experience substantially fewer than Sharpbenders. This does remove a concern that windfalls could distort our responses although the Sharpbenders study does make a case for windfalls having a neutral effect upon their results. As windfalls do not appear to be a significant factor in our acquisitions, they will not be discussed further[8].

The evidence then seems to suggest that there are indeed strong similarities between turnarounds and acquisitions in terms of the changes made to improve performance.

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[7] Question 10 in the questionnaire

[8] It is worth pointing out for our later discussion on Insiders and Outsiders, that only the Insiders recorded windfalls.

5.3.1 Key dimensions of change for acquisitions

Having shown the close association between the changes made in Sharpbenders with those in acquisitions, we can now examine those changes in terms of different acquisition types. Table 5.2 compares each acquisition type with the key dimensions of change.

Table 5.2 Key dimensions of change for Acquisitions 1991 - 1994

Key dimensions of change	% of firms citing one or more variables in these factors				
	All Acquisitions	Holding	Absorption	Preservation	Symbiotic**
Major changes in management	*93* +*	**100**	**88**	**100**	67
Stronger financial controls	*90* +	**100**	**100**	**85**	**100**
New product market focus	*83* +	**89**	**100**	62	67
Improved quality control	*54* + -	67	**75**	15	33
Improved marketing	*60* -***	56	**75**	23	67
Reduce production costs	*84* +	**100**	**88**	54	67
Reduce debt	*50* + -	**89**	**75**	8	33
Windfalls	*23* --	33	0	31	0

* The signs refer to whether the % of acquisitions stating change in this dimension is greater or less than for the Sharpbenders study (Grinyer, Mayes and McKiernan, 1988)
** We had very few Symbiotic cases but they have been included for illustrative purposes
*** Still 30% higher than control companies

There are two clear patterns that emerge from table 5.2 which have been highlighted by the emboldened boundary. These are as follows:

1. Changes across the board

One of the main points that stands out from table 5.2 above is that in all acquisition types there are stronger financial controls post-acquisition. In other words, no matter what type of acquisition, stronger financial controls are imposed by the new parent.

A second generality is that there are also major management changes in all types of acquisition. Symbiotic shows the least but these figures must be treated with care as we have very few examples of this acquisition type.

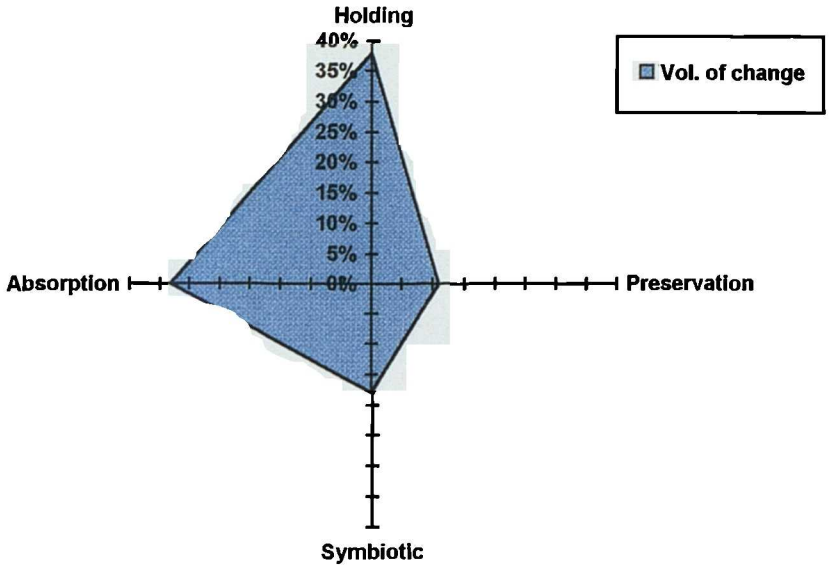
2. Divergent changes

After the general changes remarked upon above, the acquisition types show marked differences in the volume of changes made. The main divide is between Absorption and Holding acquisitions, and Preservation and Symbiotic acquisitions.

It is only to be expected that Preservation acquisitions show the least amount of change, in keeping with protecting the core activity, whilst Absorption acquisitions show the greatest amount of change, which reflects the need to integrate operations across the board. The high levels of change also recorded for Holding acquisitions is symptomatic of turnaround situations whereas the lower levels associated with Symbiotic acquisitions is more appropriate where there is investment and build.

The following figure gives an indicator of relative volumes of change by acquisition type. It is an illustration only and assumes that changes can be added together and also does not consider the magnitude of each item.

Figure 5.2 Aggregate* change by acquisition type



*Aggregate change is the total number of changes recorded for all acquisitions. Each axis shows the % of aggregate change by acquisition type

In terms of aggregate change, the differences between the four acquisition types, as depicted above, using a Kruskal - Wallis 1-way ANOVA, is significant at the 0.008 level, with least change in Preservation acquisitions, then Symbiotic, Absorption and Holding styles. This gives general support to the proposition that

there are significant differences in the levels of change between the four acquisition types[9].

Using the Mann-Whitney U test for two independent variables, to examine the significance of differences in levels of aggregate change between each category, there is evidence that there are significant differences between Absorption and Preservation acquisitions (significant at the .005 level)[10], and Holding and Preservation acquisitions (significant at the .006 level)[11]. There is no significant difference between the aggregate levels of change recorded for Holding and Absorption acquisitions (level of .66)[12]. Returning to proposition 6, that there would be a hierarchy of acquisition types in terms of volume of change which we suggested would be more influenced by resource interdependency than autonomy, we can see that autonomy, based upon our pure cases, may well be the more important influence upon levels of change in the acquired company[13]. In these terms we might suggest that higher autonomy <u>means</u> less changes imposed by HQ whilst higher resource transfer <u>implies</u> more change[14].

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[9] This significant difference remains after adjusting for positive autonomy bias: significant at the .02 level.

[10] After adjusting for potential positive autonomy bias, result is significant at .009

[11] After adjusting for potential positive autonomy bias, result is significant at .028

[12] After adjusting for potential positive autonomy bias, result is not significant at .75

[13] Using Kendall's tau-b correlation with a one tailed test of significance, correlating aggregate change directly with these variables results in the following levels of significance: with Autonomy a negative correlation significant at the .001 level with a r of -.39; with average Resource transfer a positive significant correlation at the .014 level with a r of .24 n 44. When adjustments are made for potential positive autonomy bias, using all cases, Autonomy continues to have a negative correlation at the .008 level with an r of -.22, and average Resource transfer with a positive correlation at the .001 level with an r of .27.

[14] I am grateful to Professor Peter Grinyer for this distinction

With the above picture in mind, we can now consider the similarities and differences in the changes that take place between acquisitions types. At first we will look at the two main areas of similarity between acquisition types and then examine where the areas of change diverge.

5.3.2 Changes across the board

Table 5.2 above showed two main areas of change which occur across the board in all acquisition types. These are stronger financial controls and major management changes.

5.3.2.1 Stronger financial controls

All our acquisitions experienced stronger financial control in terms of providing fuller financial information and satisfying budgets. All parent companies were quick to put their financial reporting systems into place and although many Managing Executives complained about the onerous nature of the reporting procedures, many begrudgingly acknowledged the procedures were superior to their own. This is clearly a major method of achieving control of the acquired company and supports our observation in Chapter two, section 2.5.4.1, that changes in financial controls are likely to be apparent in all acquisition types.

Beyond the requirement for standardised knowledge, the extent of the financial controls reflected the acquisition type. For instance, controls for pre-acquisition financial weakness are unevenly distributed with many changes in Holding

acquisitions and few in Preservation acquisitions, and we can also see an inverse relationship between financial control and amount of autonomy enjoyed by the acquired company.

Table 5.3 shows the percentage of acquisitions citing change for each financial control item. Due to the small numbers for some of the acquisition types it was not possible to generate a single cross-tabulation from which to read levels of significance. We therefore generated two by two matrices for each combination and report the Fisher's exact tests of significance below. The initial letter of the contrasting acquisition style is placed against significant differences identified by an asterisk in the table below.

Table 5.3 Stronger financial controls by acquisition type*

	Absorption	Holding	Preservation	Symbiotic
Cash flow forecasts (q17e1)	75%*P	75% *P	31%*A &H	33%
Budgetary controls (q17g1)	86%	75%	62%	67%
(q17c1)	75%	100%**P	54% **H	67%
Capital budgeting system (q17f)	63%*P *S	87%***P **S	33%***H *A	0%**H *A
Tight control of overheads (q17f)	63%*P *S	87%***P **S	33%***H *A	0%**H *A
Improved quality of information (q17d)	100%*P	89%	69% *A	100%

*Percentages in the table are of firms citing this factor[15]
Significance levels: * <.10; **<.05; ***<.01

[15] It is important to note that the percentages here are not always the same as in the original summary diagram (Table 5.1) as a higher percentage of firms will cite just one factor than for each individual factor

Whilst financial controls are clearly important for all acquisitions, Absorption and Holding acquisitions see high levels for all items whereas Preservation and Symbiotic[16] acquisitions see financial controls in terms of information demands and improvement in financial controls rather than controlling capital expenditure or overheads. With this difference in emphasis, we shall further characterise financial changes, by acquisition type, in section 5.3.3.

5.3.2.2 Major changes in management

93% of acquisitions cited major management changes post-acquisition. However Table 5.4 shows that there are variations in the importance of the items depending upon the type of acquisition. These variations are further characterised in section 5.3.3.

Table 5.4 Major changes in management*

	Absorption	Holding	Preservation	Symbiotic
Appoint new Managing Executive (q5b)	71% **P	44%	18% **A	67%
Change in executive directors				
- Reassign (q20c)	88%***P	78%***P	15%***H&A	33%
- Appoint (q20d)	63%	67% *P	31% *H	33%
- Remove (q20g)	88% **P	89% **P	39% **H&A	33%
· Marketing Sales (q20f)	13%	44%	15%	33%
: Finance (q20e)	50%	56%	23%	67%

[16] I shall continue to refer to Symbiotic acquisitions throughout for completeness, but the reader must bear in mind that we are drawing upon very few Symbiotic cases and so our observations will not be very robust.

*Table 5.4 (contd) Major changes in management**

	Absorption	Holding	Preservation	Symbiotic
New top management is committed, positive with a bias for action (q20k)	57%	56%	23%	33%
New top management injects new values or vision (q20j)	57%	78% **P	31% **H	67%

* Percentage of firms citing this factor
Significance levels: * <.10; **<.05; ***<.01.
P Preservation; **A** Absorption; **H** Holding
Note: The table shows the percentage, by acquisition type, of respondents carrying out the stated action. Where there are significant differences with other acquisition types, the significance level is indicated by an asterisk and the acquisition type denoted by a letter.

- Changing the Managing Executive

In Chapter two, section 2.5.4.1, we observed that the Managing Executive would be changed in order to bring about substantial change to a company[17]. From this we suggested in proposition 7, that acquisitions experiencing low change, Preservation type, would be more likely to keep the top executive than acquisitions experiencing high change, Absorption type. Clearly this is the case as 71% of Managing Executives were removed in Absorption acquisitions, where they were perceived to be a barrier to change, whereas just 18% were replaced in Preservation acquisitions. This finding was significant at the .05 level and supports the general notion of changing the managing executive to achieve substantial change in an acquired company.

[17] For our responding sample, changing the managing executive is positively associated with change in the acquisition at the .0006 level.

However, Holding acquisitions, which also exhibit high levels of change as shown in figure 5.2, generally retain the Managing Executive. Although we shall be examining the distribution of Managing Executives in Chapter seven, it is worth observing that, against our broad theme of change against resource transfer and against autonomy we find that change in managing executive is positively associated with the former at the .01 level but not significantly associated with the latter.

A partial answer to this issue is Grinyer, Mayes and McKiernan (1989) comment on Sharpbending situations, where there is significant change and incumbents remain, that incumbents exhibit a committed and positive bias for action. Certainly in Holding acquisitions we see clear evidence of incumbents injecting new values and committing to action. Although new managing executives are positively associated with change, there are clearly examples of incumbents also involved in high levels of change. We therefore suggest that the association between new managing executive and increased resource transfer leads to a different type of change. This question will be further explored in Chapters seven and eight.

- Changing the management team

Table 5.4 suggests that there are more changes amongst the management team than amongst Managing Executives[18]. There is variation across acquisition types with more changes in Absorption and Holding acquisitions than in Preservation acquisitions although the latter has a surprisingly high figure. This follows the suggestion based upon figure 5.2 that most changes appear to be a function of autonomy.

Amongst the management team we anticipated more changes amongst marketers than finance directors as Sharpbenders see changes in the former as a healthy sign of improved performance. We observed however, that changes in finance directors dominated across all acquisition types although at varying levels. This is rather surprising as only a minority of acquisitions are financially weak[19]. This is therefore likely to be an indicator of the insistence with which the parent company imposes its financial controls, removes duplicate offices and even establishes a corporate spy.

Sharpbenders saw changes amongst marketers as a healthy sign and there is some support for this notion amongst acquisitions. The lack of change in

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[18] It is worth noting that Sharpbenders (1990) found a correlation between new CEOs and the number of new functional directors. We found that whilst there was a strong association between new CEOs and changes in senior executives, in particular in marketing, this correlation was not present for changes in finance directors.

[19] There was no correlation between pre-acquisition financial health and change in finance director

marketers in Preservation acquisitions suggests that they may be perceived as close to a core competence to be changed at ones peril whereas amongst Holding acquisitions, where the companies are often weak, marketers are changed nearly as often as finance directors. In Absorption acquisitions where there is generally a high level of change in management, marketers see little change as the acquired companies often have strong market presence and this needs to be maintained whilst substantial changes take place in the rest of the operations. Interestingly the interviewees for these acquisitions rarely talked about marketing but focused upon internal operations. In consequence we cannot conclude that marketing directors will be changed as often as finance directors.

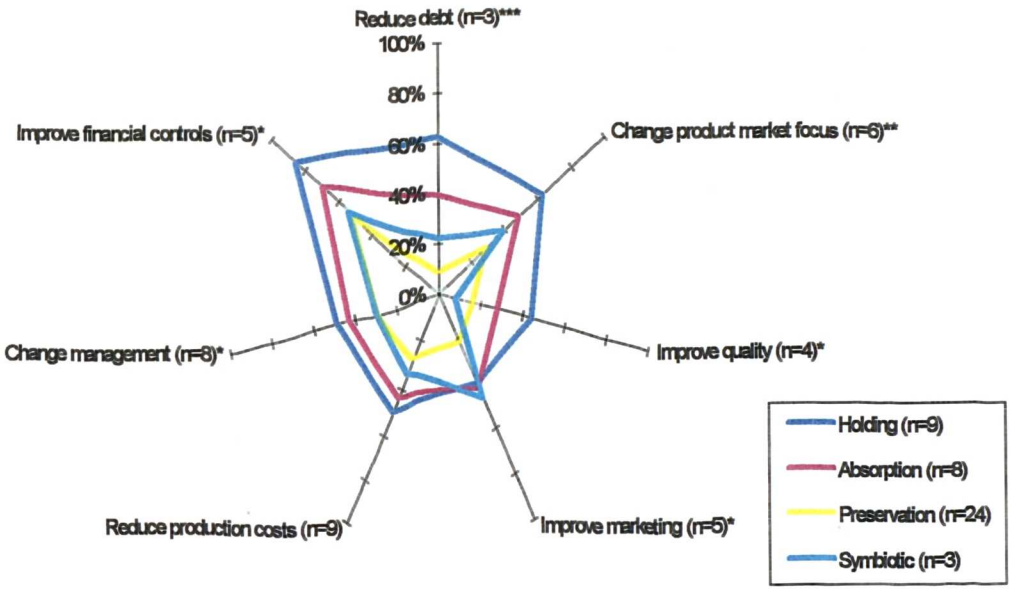
Summary of general changes

It is clear that all acquisitions experience high levels of change in terms of management and financial controls. Whilst there is a generic quality to changes in some areas of finance, the overall impression is that the emphases of change within these categories are quite different by acquisition type. We will further characterise these differences in section 5.3.3.

5.4 Acquisition types by key dimensions of change

Even in the two areas of major change, where all acquisitions appear to exhibit similar changes, we have observed that there are differences in emphasis. These differences are more apparent when the data for each dimension of change is aggregated at a higher resolution[20]. Figure 5.3 below, shows aggregate change for each of the seven dimensions identified in section 5.3.1.

Figure 5.3 Seven[21] dimensions of post-acquisition change[22]



Significance levels: *>.10, **>.05, *** >.001

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[20] See footnote 22

[21] These seven dimensions are the appropriate constructs drawn from Sharpbenders. This is shown in table 2.8, Chapter 2, section 2.5.5.2.

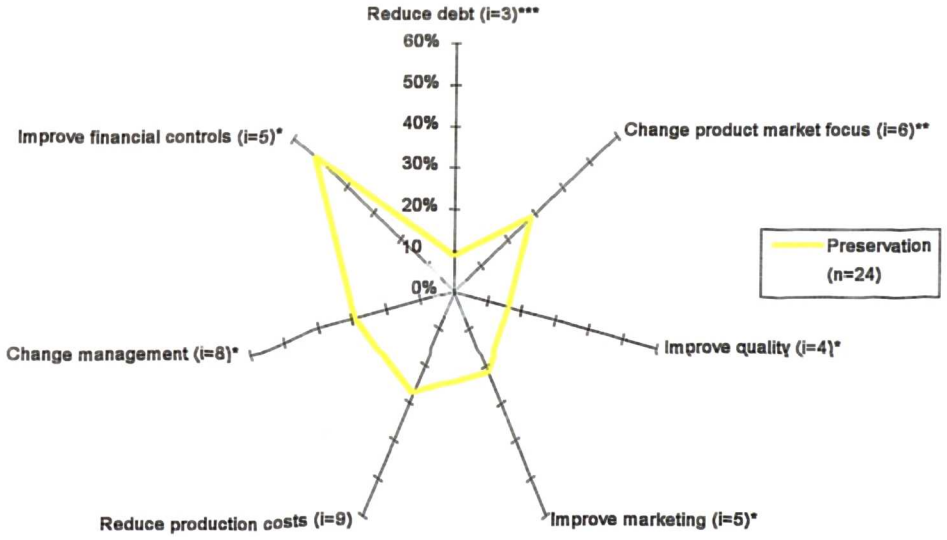
[22] There may be a query as to why the percentages seem to differ from table 5.1. In table 5.1 firms were counted as citing an area of change if they mentioned just one or more items in the area. In figure 5.3 we have aggregated the change items in each dimension and then calculated the average for firms by acquisition type, adjusting for number of respondents and number of change items per dimension.

Figure 5.3 shows significant differences on most of the dimensions and a generally consistent difference in the level of change by the four acquisition types, which is consistent with figure 5.2[23]. This is strong evidence for the robust nature of Haspeslagh and Jemison's (1991) framework on the basis of the changes made in the post-acquisition period.

The distinctive nature of post-acquisition change in Preservation, Absorption and Holding acquisitions is explored in the remainder of this section. Symbiotic acquisitions are not included due to insufficient cases for a robust picture.

5.4.1 Preservation acquisitions

Figure 5.4 Changes in Preservation acquisitions



i = questionnaire items

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[23] These differences remain significant for most items when we adjust for potential positive bias on the autonomy scale. The main effect of the adjustment is to further distinguish between Preservation acquisitions and the other types. The results for each dimension are: Reduce debt***, change product market focus**, improve quality, improve marketing**, reduce production costs*, change management**, improve financial controls.

Preservation acquisitions see the least amount of change of the three acquisition types. From Figure 5.4 we can see that the main areas of change are in financial controls and management, which could be described as taking control actions. For the other dimensions of change few actions are taken and, in general, change instigated by the parent is vigorously resisted.

- Improve financial controls

Table 5.3 showed Preservation acquisitions with significantly less change than Absorption and Holding acquisitions, although there was an emphasis on gaining financial information (69% citing this item). All acquisitions were expected to conform with standardising group financial reporting and in many cases the Managing Executives felt the new formats were an improvement upon their own. This may help to account for the quite high degree of acceptance.

54% of Preservation acquisitions cited control through financial budgets. This is quite a high figure although the lowest for our four acquisition types and reflects a preference for acquiring companies to manage predominantly through the setting of budgetary targets. As Crossman, Managing Director of an acquired transport company, says, *'the budget is the bible. If we are keeping within budget, they don't interfere. They say, 'go ahead, run your business, you're the experts, we trust you. When things go wrong, they get heavy'.*

Characteristic amongst Preservation Managing Executives was the sense of a game being played where Head Office expectations could be manipulated and the acquisition be portrayed in a favourable light. In the words of Andrews, Managing Director of Micrometer acquired by Utility PLC, *'if you do your budgets the right way, then you've got a lot of flexibility'*. Achieving budget kept Head Office at bay and *'if we perform, we get the investment. There's nothing better than just producing results'*. In addition to building in costs there was also evidence of 'cocoa tins' or having 'tucked something up our sleeve'.

Although there was pressure from the new parent to bow to more rigorous controls, there was a strong sense of the acquired company defending itself from change either by game playing as above or by more rigid stands such as not accepting budgets to the point of it being a resigning issue. As Fredericks, the Managing Director of a large acquisition in the communications industry remarked, *'if I had accepted what was being demanded then our investments would have been cut back, our customer service would have been cut back - everything would have been done for the short term'*.

So whilst there was better financial reporting, there was a tension between what the parent company wanted in terms of target setting and what the Preservation Managing Executive was prepared to accept. There is little doubt that their ability to produce results gave them the power to stand up for themselves in budget negotiations and helped generate trust. As Fredericks says, *'We had a good track record both on our actual performance and on our budgets in the*

past so we were able to say, 'look, we know our business. These numbers are bizarre, and we rubbished the numbers'.

- Change management

Preservation acquisitions rarely see the removal of the Managing Executive (18% cited this change - see table 5.4). This has important implications which will be addressed in Chapter seven. However 39% cited changes in the management team which, although less than average, is still a sizeable number. It seems that the acquisition gave the Managing Executive the opportunity to remove sub-optimal executives or those whose roles were duplicated at Head Office. In the Micrometer cameo, the acquisition enabled the removal of the Finance Director who had previously been a significant shareholder and therefore untouchable. Generally however, the managing team is clearly viewed as successful and so changes are fewer than in other acquisition types.

There was some sense of new values (q20j) and a greater bias for action (q20k) post-acquisition although less than for other acquisition types. Several incumbent Managing Executives complained at how time consuming negotiating the sale of the company had been and in several cases, where a number of potential purchasers had been involved, this activity spanned a considerable period of time. Once the sale was completed there was a sense that the businesses had drifted a bit and needed to be brought back up to speed. Andrews, in our Micrometer cameo, described this as a general malaise due to

the uncertainty surrounding ownership. In addition the Managing Executives seemed to be optimistic in terms of the support and resources that being part of a large group might bring.

There is also no doubt that these Managing Executives had plans for changes in mind for some time. The common image of the aggressive corporate acquirer together with the general expectation of change raised amongst employees, shown in our Micrometer cameo, gave the Managing Executive both opportunity and a smoke screen for change.

- Change product market focus

From figure 5.4 above and from the data analysis contained in appendix 5.1, it is clear that analysing product market position to uncover the possibilities open for management action is unlikely to occur in Preservation acquisitions. Only 31% reviewed their marketing plans as this was something that they felt was already done well. There were no cut backs in product market focus and this was significantly different from Holding acquisitions at the .01 level and Absorption acquisitions at the .05 level. Only 15% of respondents cited focusing on a specific market segment and along with other product market items, Preservation acquisitions were significantly different from other acquisition types.

The only significant changes in this area, where Preservation acquisitions fell into line with other acquisition styles were in terms of tightening production costs, which may be a manifestation of stricter financial controls, and some investment in new technology.

The impression from this and subsequent interviews is that the Managing Executives were very comfortable with their markets and these were to be protected rather than altered.

- Improved quality and service, and improved marketing

Echoing the above, Preservation acquisitions do not alter their approach to markets and customers and so only 8% to 15% mentioned changes in terms of improvements to quality and service or marketing. Appendix 5.1 shows that those differences are significant against other acquisition types. For Preservation acquisitions, marketing operations are a sacred cow. Indeed Managing Executives spoke often about protecting customers.

- Intensive efforts to reduce production costs

Whilst Preservation acquisitions see some reduction in production costs, through improving labour productivity and plant capacity, for other items, shown in appendix 5.1, there are often significantly fewer changes than either Holding or Absorption acquisitions.

The picture is one of incremental streamlining change rather than profound alterations. The Managing Executives vigorously defended their operations from parental intrusion. As Fredericks, Chief Executive of an acquired communications company, remarked, *'my major role throughout was defending the customers and the business from the owners'*.

- Reduction in debt

Preservation acquisitions are financially strong and so it would be surprising to find a big drive to reduce debt or the sale of assets. Appendix 5.1 shows that in only 8% of cases are there vigorous steps to reduce debt and in no cases are assets sold off. Preservation acquisitions are significantly different from other acquisitions on these items.

5.4.1.1 Preservation acquisitions summary

Preservation acquisitions witness very few changes as a direct result of acquisition and this is a statistically significant difference for eighteen of the twenty three variables examined above. The main changes are in terms of adopting parental financial reporting, improving controls and a degree of capital investment. This confirms Haspeslagh and Jemison's (1991) observations of the parent providing financial evaluation and raises the issue of parental nurturing through investment. Even in Haspeslagh and Jemison's (1991) example of BP

Nutrition's acquisition of Hendrix, where the financial investment came from Hendrix's own cash generation, most of our Preservation acquisitions also supplied their own resources for investment which suggests that the idea of parental nurturing through investment has been over-stated.

One of the key themes of Haspeslagh and Jemison's (1991) characterisation of Preservation acquisitions is the role of a gate-keeper to protect boundaries between the two companies. Although they do not focus upon the Managing Executive of the acquired company, we encountered considerable evidence that he was protecting his business and customers from the new parent: *'fighting the corporate immune system'*.

However related to this protective spirit was also a negative view of the new parent who was perceived as adding little value to the acquired business. In the words of Fredericks, Chief Executive of an acquired communications company, *'the owners contributed absolutely nothing to the business at any stage'*. Whilst Haspeslagh and Jemison (1991) argue for organisational championing, whereby the acquired company influences the parent by maintaining good relationships with corporate staff and demonstrating strong control over their own operations, we found that these good corporate relationships were rare, influencing Head Office unlikely and that demonstrating good control of their companies was essentially to prevent interference from above.

The gulf between Head Office and Managing Executive was often exacerbated by the use of consultants. At Micrometer the new parent, Utility PLC, relied heavily upon the use of consultants which meant that Andrews, Micrometer's Managing Director, was less involved with decisions at Head Office. This lack of involvement made him defensive; in his words, *'you make sure you convince the consultants that (the new idea) didn't apply to you'*. For Fredericks, Chief Executive of an acquired communications company, *'we fought like a dog with (management consultants) and, fine, we absorbed their methodology and used it to do what we wanted rather than what they came up with, silly ideas, because they didn't know the business'*.

This defensiveness is rooted in two issues: one, that the Managing Executive is in charge of a successful business which he intends to protect; and two, that the parent lacks understanding of the business and has a remote management style.

Most of the Preservation acquisitions highlighted a lack of strategic direction from Head Office and all agreed that post-acquisition involvement from Head Office was very limited. Despite the strategies that might have existed, the Managing Executives took the view that there was a gulf between group strategy and its implementation. Top management was perceived as divorced from operational reality. All of them commented that after-care was virtually non-existent. When on the few occasions Head Office did take an initiative, the lack of operational understanding resulted in disaster with enormous effort being consumed, unsuccessfully, trying to solve technical mismatches.

Lack of understanding and apparent lack of interest from Head Office meant that Managing Executives viewed any interest in the internal workings of their businesses as interference and it was duly resisted. From the Managing Executives point of view it was better to concentrate on producing the results and not to attract negative attention. Perhaps we can clearly see here the gap between facing the short term expectations of shareholders and the operational concerns of the Managing Executive. With this tension, the exchange of learning between organisations and the influencing of the parent by the acquired company was rarely evident.

Whilst Haspeslagh and Jemison (1991) stress the lack of change in Preservation acquisitions, this under-states the actual changes that take place. The acquisition was frequently seen as an opportunity for the Managing Executive to make a few changes that were difficult beforehand. In particular there was often a change in senior management and a tightening up of operations. Overall these changes were incremental and improved the business without transforming it.

In addition, whilst Managing Executives of acquired companies were fiercely resisting change imposed from the new parent, they were continuously responding to changes in their environments. In the case of Micrometer there was some rationalisation in the face of a declining and difficult market.

In conclusion Preservation acquisition see many more changes than hitherto suggested although we concur with Haspeslagh and Jemison (1991) that change

imposed by the parent is fiercely resisted. We also suggest that although learning and organisational championing may be desirable, the tensions thrown up by defending the business and managing short term operating results presents a significant obstacle to these developments. Finally, parental nurturing through investment is often more apparent than real which reinforces the notion of a gulf between the two parties.

Main Preservation themes

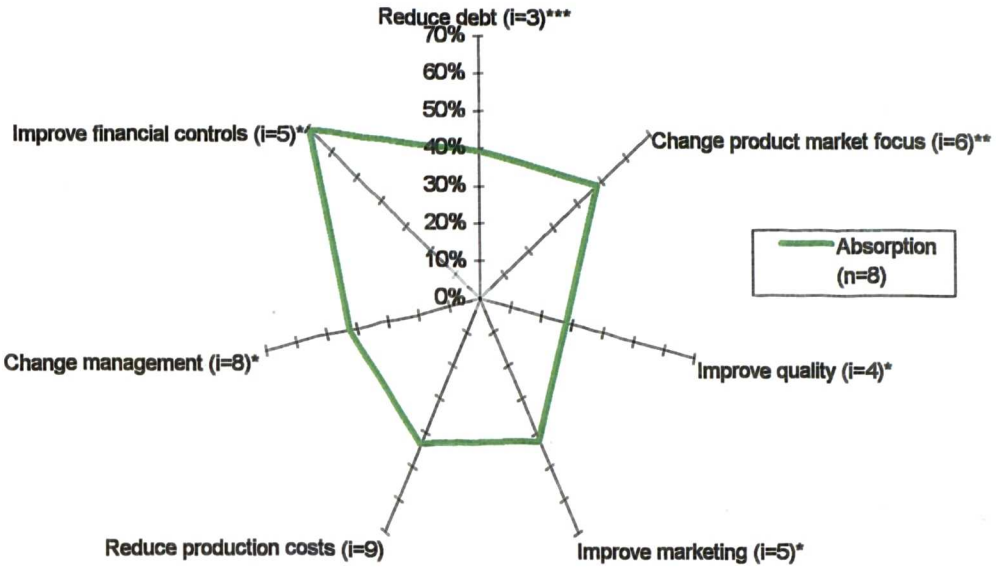
- Low overall post-acquisition change
  - keep things as they are and preserve the core operations.
  - retain the Managing Executive
  - defend the business from the parent

- A bias for action to pull the business back into shape
  - adopt parental financial reporting system
  - streamline management and remove the finance director
  - tighten up costs of operations

- Parental nurturing
  - although an anticipated benefit, this was limited and rare. Managing Executives felt it was often paid for out of their own resources. However examples of capital investment tended to be in information technology /information systems

5.4.2 Absorption acquisitions

Figure 5.5 Changes in Absorption acquisitions



Financial controls assume a great importance for Absorption acquisitions as it is through these controls that the acquired company is understood and areas for cost savings identified. There is also extensive change in management which may be understood in terms of removing obstacles to change, or, in the case of replacing the CEO, to symbolise change, shake the tree, even if he is not seen to be a major obstacle[24]. Whilst these two areas of financial controls and management change are dominant it is clear that there are numerous changes in the other dimensions as well.

[24] To some extent the CEO provides a scape goat suggesting the past was inadequate

- Improve financial controls

Absorption acquisitions put a high priority upon expressing the acquired company through their own financial systems (100% cited improving the quality of information - see table 5.3). As James, Managing Director of a professional services firm which acquired a similar business said, *'Until you turn the lights on, you can't see where you're going'*. This helped them target areas for reducing costs through de-duplication of activity. Budgetary controls were seen as a vital part of controlling the integration activity and were of major concern at the outset of the post-acquisition phase. In the case of Packers PLC's acquisitions of Edibles PLC, Vaughan, the new CEO remarked that the first five months were spent *'agreeing budgets for the part of the activity that was going to be split into each of our three areas'*. The importance and indeed problem of focusing on coalescing accounts was shown in the cameo where priority was given to stitching accounts together and then assuming it would work.

- Change management

Absorption acquisitions saw a great deal of change in the management team with 88% citing changes in executive directors (see table 5.4). 71% of respondents said the incumbent Managing Executive was replaced as they were perceived to be a barrier to change and there was no senior position for them in the Group. A minority of Incumbents did remain, more by luck than design. As

Heath, Chief Executive of a professional services firm acquired by a rival, and one of the few remaining incumbents in Absorption acquisitions remarked, *'if you're acquiring its natural to put your guy in place'*. Where incumbents remained, they clearly influenced the integration process. This issue of retaining or removing the Managing Executive will be revisited in more detail in Chapter seven.

The large number of changes in the management team is largely due to a number of positions being duplicated. Many Absorption acquisitions are characterised by a period of joint committees or 'parallel working' where opposite members of management work beside each other to assess which areas of the business should be rationalised and indeed how they should rationalise their own position. In our cameo of Edible PLC's acquisition by Packer's PLC, the latters managers were superimposed on the formers, with joint responsibility for determining the rationalisation of their area and which of them would go. In a large communications acquisition by a competitor, there was an extensive use of joint committees and in a Utilities acquisition, all executives had equal opportunity to apply for all the posts in the new integrated company.

The general thrust however tended to be the removal of senior executives and duplicate functions at Head Office rather than the removal of operations management. In our cameo of Packers PLC, Keaton, finance director, observed that they didn't want to keep the board of directors or the finance director. '*The operational managers were the value and particularly the guys with the*

relationships with major customers'. Consequently it is not surprising to see that 50% of finance directors were removed whereas Marketing / Sales directors fared rather better as they generally stayed on.

As table 5.4 shows, just over half of respondents cited a bias for action and new values. With the turnover in the top management team, this is perhaps not so surprising as there would be an emphasis upon doing things differently and every emphasis upon de-duplications, rationalisations and removing the previous corporate identity of the acquired company.

- Change product market focus

71% of Absorption acquisitions cited reviewing the marketing plan and it was clear from the interviews that many of the acquisitions were driven by the wish to build market share in their own market. Post-acquisition changes were directed at achieving this aim by concentrating upon tight overhead control to reduce costs. This was the case for 63% of Absorption acquisitions. 50% cut back to the profitable core of the acquired business and 57% focused upon a specific market segment. The general impression is of building market share whilst driving for cost reduction rather than investment. The main driver of the cost reduction was the de-duplication of activities and rationalisation of assets. Appendix 5.2 shows that most items in this dimension showed significant differences with Preservation acquisitions.

- Improve quality and service

There is a wish to improve quality and service by reducing delivery days which is a relatively straight forward activity and reduces costs quickly. 57% of respondents said they made this change and appendix 5.2 shows this to be significantly different from Preservation acquisitions at the .05 level. There is also evidence of improving quality control and introducing after sales service although these activities are less easy to achieve and often require investment before benefits show. There is little emphasis upon improving product design, carried out in just 20% of cases, which is longer term and a more difficult way of achieving benefits. The emphasis of these changes is therefore angled at cost reduction and streamlining rather than improving the product or adding to the service.

- Improve marketing

Absorption acquisitions see several changes in this area; in particular there is an improvement in distribution channels, changed in 43% of cases, which may well be due to rationalisation rather than an improved customer relationship, and an emphasis upon improving marketing information to the board which occurred in 57% of cases. Appendix 5.2 shows the latter item to be significantly different from Preservation acquisitions at the .05 level. This betrays an inward looking perspective to marketing, rather than an outward focus on the customer per se.

This is the danger that Fredericks, Chief Executive of an acquired communications company refers to when discussing an integration acquisition, *'its difficult putting businesses together because you've got to spend so much of your effort facing inwards and so take your eye off the commercial football'.*

- Intensive efforts to reduce production costs

As one would expect with Absorption acquisitions, above average numbers[25] of respondents cited change for each item in reducing production costs with the exception of making investment in new plants. This clearly shows a cut back and reduction mentality.

Many executives cited the drive for reduced costs to justify the price of the acquisition. In a very large acquisition of a communications business, Martin, a Head Office executive said, *'the price we paid required us to justify that price through overhead cuts. We had to deliver those overhead cuts and the very first thing we did, even before the deal was completed, was set up joint committees to oversee how costs could be reduced between the two organisations'.* The pressure to get costs down was evident in most cases as our cameo of Packers PLC showed.

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[25] The average is of all respondents for an item

With an emphasis upon de-duplicating activities, overhead reductions were relatively straightforward to achieve. In the Packers PLC cameo, there was a substantial cut back in Head Office numbers in Edibles PLC. The acquired company Head Office was not needed in 89%[26] of Absorption acquisition cases. As Lambert, the Managing Executive of a utilities company, remarked, *'it was obvious that we would only operate with one office and I'm sure somebody would have told me from on high if I'd said that we needed to keep two Head Offices going'.*

Reducing costs was foremost in the minds of Absorption Managing Executives. The cameo of Packers PLC clearly shows the attention to reducing costs by de-duplication and rationalisation of factories. In many cases the rationalisation of assets was easy to achieve as Lambert at an acquired utility company said, *'some of these decisions came out very easily once you gave them half a thought, because in one town, they had a depot, we had a depot, I mean its easy as that - you don't have two depots, you have one'.*

Reduction in costs rather than investment was the main driver in Absorption acquisitions. The main concern was how to extract costs while keeping the operation running.

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[26] Significantly (.1 level) greater than Preservation acquisitions - see appendix 5.2.

- Reduction in debt

In 50%[27] of cases, Absorption acquisitions made efforts to reduce the costs associated with making the acquisition by selling off non-essential businesses (see appendix 5.2). In many cases there was surprise that the assets sold were in fact worth substantially more than anticipated. In our cameo of Packers PLC, part of the acquisition included three small businesses making poor returns. The finance director[28] at Packers PLC, Keaton illustrated the mentalité towards peripheral assets in saying, *'God knows what we're going to sell these businesses for. We don't know anything about them. And I think we more than tripled my estimate in terms of getting that back'*. Packers PLC recouped some 20% of the total acquisition cost.

5.4.2.1 Absorption acquisitions summary

Haspeslagh and Jemison (1991) characterise Absorption acquisitions as true consolidations of two firms. Critical elements in achieving this end are the selection of a leader, a management team and the setting up of task forces to plan and then implement the rationalisation of the businesses. The identity of the acquired company is quickly removed as the acquired company is subsumed

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[27] Significantly (.05 level) greater than Preservation acquisitions

[28] Keaton is currently the finance director of Packers PLC. At the time of acquisition, he was sent in to run the newly acquired company Edibles.

within the parent. Every effort is made to reduce costs and to move towards best practice. Once this has been achieved, efforts are then directed towards developing and investing in differences.

Our findings concur with those of Haspeslagh and Jemison (1991) although we can supply rather more detail. Absorption acquisitions are characterised by substantial post-acquisition change. Rather than just selecting a leader, we found that 71% of incumbent executives, and 89% of senior executives of the acquired company were removed. Changing senior management in the acquired company removed a major impediment to change. In addition there was considerable emphasis upon removing the identity of the acquired company by changing logos, corporate names and closing down Head Offices.

To assess which areas were appropriate for change there was often a post-acquisition planning period during which there was an extensive use of integration teams, joint committees and parallel working. In essence the two businesses were run in parallel whilst evaluations were carried out on the preferred rationalisations of staff and operations. This was clearly a very sensitive time as every effort was being made to retain key operational staff and middle management, motivate employees and retain customers whilst assessing areas for rationalisation. In addition it is important to note the high priority given at the outset to retaining key customers.

Once the planning period was complete there was substantial change across the board with the main emphasis being upon the de-duplication of activities. Head Offices, warehouses and depots, factories and other production facilities, were rationalised often with substantial job loss. This activity was directly linked to a pervasive drive to reduce costs and many acquirers had set themselves aggressive financial targets.

- Imposition of parent systems and structures

In all cases there was a sense of parent systems being imposed upon the acquired company. In some cases interviewees owned up to a certain degree of arrogance that their systems were best, the *'conquering hero syndrome'*, and in several cases the post-acquisition problems encountered were a direct result of the parent systems being inappropriate for the acquired business. In the case of the acquisition of Fibres PLC, the acquirer was described by the retained Managing Director as *'selling drops for dollars whereas we were selling big chunks for a little less than dollars; trying to use their ideas in our warehouses gave us significant difficulties'*. Another example was during the post-acquisition phase for an acquired professional services firm. A regional structure was imposed upon an organisation that had previously operated on skill group lines. As Heath, the Chief Executive of the acquired company remarked, *'what was realised later was that the right approach was the skill group approach and the regional approach was wrong'*. This was an error that caused human

resources to suffer and *'the business has gone back now to a very much skill group and organisation based along skill group lines and not regionalised'*.

In a few cases there was a clear wish to take on board best practices in the acquired company. For instance Edibles PLC possessed a superior computer system to Packers PLC. However it was felt that the it would be far more expensive and difficult to change Packers PLC than it would to change Edibles PLC. In general where there were areas of overlap, and despite good intentions, the acquiring company's approach won through. The example of Heath's acquired professional services company is a case in point.

The acquired company tended to be perceived as having areas of best practice where the parent had little or no presence. In the case of the acquired communications company, all the library resources were concentrated at the acquired company as *'they had the better department and also had the bigger library* (Martin).

In relation to Haspeslagh and Jemison's (1991) observations of rationalisation and moving to best practice, we tended to find that best practice is very often what the acquiring company is practising. The exception to this are the few instances where there is little overlap between the activities of the two companies. Haspeslagh and Jemison's (1991) further suggestion that differences be developed and investments made appears unlikely. The reason is that the identity of the acquired company has been erased and it's 'champions' in senior

management have often departed. Once the rationalisation is completed and cost reduction activities achieved, the acquisition is very often regarded as history.

One issue that does emerge from the changes discussed above is the internalisation of management attention. It seems that once customers have been secured at the outset, all efforts are focused upon de-duplicating activities and cutting costs. There was little mention of markets and of the future beyond the cost cutting programme even when completed.

- Problems

With the removal of the incumbent executive and corporate identity, there was a great fear of change amongst employees. Indeed Absorption acquisitions are associated with very significant job losses, the problems of which Haspeslagh and Jemison (1991) understate. The fear of change led to an 'us and them' culture which could be very obstructive. To an extent this fear of change can be mitigated by excellent communications, as Haspeslagh and Jemison (1991) advocate, although it is worth recording that in the case of the acquired utility company, the hardships in the industry had a strong coalescing effect upon employees.[29]

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[29] Indeed in the US, crises are known to be engineered (c.f. Pettigrew, 1985) by the acquiring management to achieve this end.

Our Absorption acquisitions were driven by a strong cost reduction mentalité and the arrogance of the conqueror was hard to avoid. This led to errors in terms of sacking large numbers of people whose roles were not familiar to the parent company. These people often carried important tacit knowledge which was then lost. This also reveals the important distinction between codified and tacit knowledge, as in all cases every effort was made to retain records and documents without recognising that a lot of critical information is stored in employees rather than on paper. In many cases companies complained that although they kept all the tax records, the Inland Revenue is now asking questions about those figures the explanation for which is with ex-employees. For this reason some have described middle management employees as the marzipan layer of an acquisition.

Most cases experienced severe disruption costs due to implementation difficulties. These were normally due to inadequate operational considerations such as the movement of a major part of a factory only to find difficulties in selling the site, agreeing the importance of extending and modifying acquired operations but then finding it costs substantially more than anticipated, closing down a large regional production operation and encountering very strong union and local resistance, and a general unwillingness of many employees to relocate even such small distances as 12 miles. It is worth suggesting that such expensive operational errors are the result of the acquisition being driven largely by financial management. As the cameo of the acquisition of Edibles PLC shows,

there is evidence that acquirers can assume that just by putting financial controls in place, the integration will be successful.

- Beyond rationalisation

Haspeslagh & Jemison (1991) suggest that once the rationalisation is complete there is a move to harness the complementarity in the two firms. This is in marked contrast to the tasks described above of harmonising the two companies as this involves capitalising upon their differences. The evidence for this is difficult to find perhaps as so much effort is expended upon harmonising the two operations. Indeed considerable effort is also put into selling off peripheral businesses. On our evidence, value is created throughout the rationalisation process as an end in itself rather than by any attention to harnessing complementarities.

The main driver of change was to reduce the costs of duplicate operations. Often this became the overriding objective and it is no surprise therefore that in most instances Absorption acquisitions appear to be financially driven with insufficient attention to operational issues. The exceptions to this are; where an Incumbent Managing Executive remained to defend his operation, and we shall look at this point further in Chapter seven, and; a utility company which was not subject to such direct market forces.

Main Absorption themes

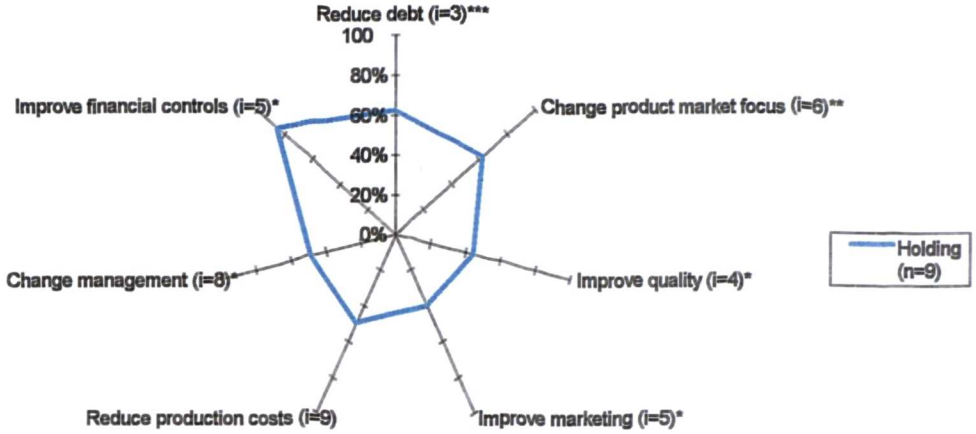
- Remove impediments to change
  - remove acquired company identity
  - remove acquired management

- Post-acquisition planning and assessment period
  - use of integration teams, parallel working, joint committees
  - maintain morale whilst building understanding of business

- High levels of change across the board, driven by cost reduction
  - de-duplicate activities with substantial job loss
  - rationalise assets
  - reduce operating costs
  - impose parent systems

5.4.3 Holding acquisitions

Figure 5.6 Changes in Holding acquisitions



Holding acquisitions experience the imposition of stringent financial controls to improve their financial health. Although the incumbent Managing Executive often remains, there are major changes in the management team. There are extensive changes in all other areas and the main driver is to cut back to the core to reduce costs and return the business to a more healthy footing.

- Improve financial controls

Holding acquisitions see the strongest direct financial controls and they are given the utmost priority. All the acquired companies were financially weak and so every effort was made to turn the company around by closely monitoring the

budgets and improving controls. Rowland, Chairman of an acquisition in industrial services, remarked that *'I wouldn't let any of the controls slip. I wouldn't tolerate any departure. We don't let that get away'.*

Many Managing Executives complained about the stringency and unyielding nature of parental controls which seemed to have little bearing upon their business. In the words of a Chief Executive[30] of an acquired engineering consultancy, *'we were constrained by the parent company, not free to make decisions in the best interests of the company. The parent company imposed rigid expenditure controls'.* The cameo of the Transistor PLC acquisition above shows how the Managing Executive was forced into making severe changes in order to meet budget even though this would have damaging consequences for the business in the medium term.

The short term financial results orientation of parent companies was echoed by Rowland at an acquired industrial services company; *'the parent company are a lot more short term. 'Will you please tell us what the profit's going to be?'* Rowland's view was that, *'I don't think you can run a manufacturing business on a one year basis!'*

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[30] Written reply to question 32; questionnaire 21

- Change management

Holding acquisitions saw high levels of change in management, shown in table 5.4, although only 44% cited a change in the Managing Executive. This seems rather unusual as the volume of changes appears to be rather large for the retention of incumbents. This aspect will be examined in Chapter seven. There certainly was a change in their perspective as they were forced to move from a medium strategic horizon to a short term operational focus, an issue we shall re-visit in Chapter eight.

Amongst management, apart from the Managing Executive, there was a high level of change with 78% of respondents citing reassignments amongst senior executives, and 89% saying that some directors had been removed: these results were significantly different to Preservation acquisitions. The necessary slimming down of the company involved removing management that might not have been removable before (see Transistor PLC cameo). The cutting back process was policed by the new parent and this overcame internal resistance as well as legitimised the actions of the Managing Executive.

Just over half of finance directors were changed which is not so surprising as these acquisitions tended to be financially weak and there would be significant change in the financial procedures[31]. There was also a high level of change

[31] Using a partial correlation for associations between autonomy and pre-acquisition gearing, and between autonomy and pre-acquisition cashflow, whilst controlling for resource transfer,

amongst marketing / sales directors with 44% departing. This may also be symptomatic of rigorous attempts to improve performance in the market.

There was also a sense of greater bias for action and in particular the introduction of new values, with 78% of respondents mentioning the importance of this item[32]. The impression is that great efforts are being made to make a difference to the company and this fits the picture of turnaround situations where the emphasis is upon improving financial controls, and taking action to reduce costs.

- New product market focus

Holding acquisitions seem to present an even more extreme picture than Absorption acquisitions with 89% cutting back to the profitable core and 88% imposing a tight control on overheads[33]. As Rowland, the Managing Director of an acquired industrial services company said, *'the rationale for the changes was of course the company was making losses basically because the overheads and the management overheads were too big'.*

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we find highly significant negative correlations of .003, r=-.36, and; .005, r=-.34 respectively. This supports the notion that Holding companies are predominantly in weak financial health at the time of acquisition.

[32] Significantly (.05) greater than Preservation acquisitions - see table 5.4

[33] Significantly (.01 level) different from Preservation acquisitions - see Appendix 5.3

Attention is also given to keeping a tight control on production costs. These activities certainly support the notion of a turnaround. There are only average amounts of change in terms of analysing market position and well below average change in focusing upon a specific market segment. This supports the idea of trying to improve what is already being done rather than adopt a new product / market direction. This could well be due to a lack of resources and a retrenchment, rather than build, mentalité.

- Improved quality and service

Around half of Holding acquisitions make significantly more changes than Preservation acquisitions in terms of reducing delivery days and introducing after sales service (see Appendix 5.3). There is also effort applied to improving the product design. Clearly there is some emphasis upon improving quality and service although attention appears to be on the items which are easier and quicker to change.

- Improved marketing

Holding acquisitions see greater attempts to improve distribution as this can lead to rapid improvements in results[34]. Nelson, Chief Executive of an acquired

[34] 56% of cases showed this. Significantly (.01 level) greater than Preservation acquisitions - see Appendix 5.3

financial services company, reflects on this issue; *'we were hit by the crash of '87 so we were determined that we needed to do something about our distribution. The only way we could do that was to give up our independence and become part of a bigger financial group so we could cut costs through economies of scale and have a secure distribution channel'.*

Together with trying to improving distribution channels post-acquisition, there was also effort to optimise after sales service[35]. It is interesting to note however that there is less attempt to improve marketing information to the board[36]. This contradiction may be explained by the fact that the Managing Executive is trying to defend the marketing effort from the financial rigours imposed by the new parent company. In the Transistor PLC cameo, Stanton said the most difficult change was reduction in development and marketing, *'because it was hitting the future of the company. I found that very hard to explain to people because I'd always preached sales are critical to pay our salaries but the real future in the company is what we are ploughing back in from cashflow to product and market development - and here I was just putting a great line through my own strategy. The instruction from Circuit Board PLC was get back to budget'.*

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[35] The average score here is 56%
[36] The average score here is 33%

Generally improving marketing assumed a rather muted role in Holding acquisitions. *'The parent company imposed rigid expenditure controls, staffing policies and marketing initiatives were denied'* (Stanton).

- Intensive efforts to reduce production costs

89%[37] of Holding acquisitions see cuts in Head Office staff. This is part of the rationalisation process, justified on the basis of the duplication of function or sub-optimal performance, and removes barriers to change. Rowland, the Managing Director of an acquired industrial services company, said *'the plan was to close down the Head Office which was very expensive and opulent. That was a fairly major task but not very difficult to do. The company was in fact making losses - it had had a few cutbacks and they basically got rid of the lower paid staff and kept a lot of managers - it was very top heavy. So we did have to remove a lot of top management'.*

Over half of Holding acquisitions see efforts to reduce production costs through better production control, stock and capacity utilisation. Following the large acquisition of an industrial land usage company, Taylor, a regional manager remarked that *'the reporting systems are sacrosanct, they've all been brought in. We're also bringing in unprecedented performance monitoring systems. Every single truck, every single system, every single type of container through*

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[37] Significantly (.05 level) greater than Preservation acquisitions - see Appendix 5.3

the accounting procedures can be broken out, can be assessed in their entirety, on their own. You can pull out any type, any feature of our business to see where it is losing money. Everything has to be performance monitored. Everything is very, very accountable. There is accountability for everything and everybody. We didn't have that before'.

Restructuring was a common factor in Holding acquisitions with a view to improving the efficiency of the core operation. At an acquired industrial services company, Rowland said, *'we removed three quarters of the directors as they were in areas where there were too many divisions and not enough activity. So we quickly restructured into sales and purchasing rather than product divisions'*. In our cameo of Transistor PLC, in response to not making budget, Stanton restructured the company and achieved a turnaround within the year.

The questionnaire also suggests that there is investment in new plant to reduce costs. The interviews certainly point to restructuring to achieve greater efficiencies which probably includes improving plant but there is little mention of actual investment in plant.

There is a degree of investment in terms of better training and wage incentives although this is only just above average. At an acquired industrial services company, Rowland remarked that *'this is something I set up. They have bonuses related to the profit of the division which has a monthly charge on it, which is a*

percentage of the net assets used in the division. It's made everyone very conscious of the working capital which is used in the business'.

- Reduction in debt

89%[38] of Holding acquisitions sell off subsidiaries to reduce debt and return to a sound financial footing. Rowland, Managing Director at an acquired industrial services company said *'there was a division which was selling machines which no-one really felt was going to fit in very well with the industrial machinery business and we didn't think it was going to work out so we closed that down'.*

The pressure to reduce debts and restore profitability were well illustrated in our cameo of Transistor PLC, where Stanton's response to Circuit Board PLC's demands was; *'cut back, cut back, cut back - but if that's what Circuit Board PLC wants, profit, I'll give them profit, or reduce losses'.* This focus on debt reduction is in keeping with a general characterisation of Holding acquisitions as turnarounds.

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[38] Significantly (.01 level) greater than Preservation acquisitions - see Appendix 5.3

5.4.3.1 Holding acquisitions summary

The Managing Executive tended to stay with the Holding acquisition. However these companies were in poor financial health and, as our opening cameo of Transistor PLC showed, there was a clear and over riding drive to return them to robust financial health.

The parent company managed through a stringent application of budgetary controls. If targets were not met it was up to the Managing Executive to make changes until they were achieved. Our cameo of Transistor PLC showed all too clearly how the Managing Executive was pushed into making severe changes to achieve budget.

There was a clear sense that focusing upon short term results caused the Managing Executive's perspective to be altered from a medium term strategic view to a short term operational perspective and this was epitomised by Stanton at Transistor PLC moving from a Chief Executive role to one of managing director.

Running weak businesses, which were also subject to often severe cuts, probably eroded the Managing Executive's voice at group level. They clearly did not feel valued and this lack of influence was greatly resented. Sacrificing

the long term future of their businesses for short term gain led many Managing Executives to feel futile and depressed, and one committed suicide.

- Beyond the turnaround

Apart from the immediate changes to return the acquired businesses to a sound financial footing, there was distinct lack of any further input from the parent company. At an acquired financial services company, this felt like a post-acquisition lull (Nelson). The reasons are either the parent company totally lacked in any expertise other than financial management and therefore were unable to contribute in terms of information technology, marketing or operational skills, or the parent's competence was too different to be applied. In either case there was a generally accepted belief that the parent did not understand the acquired business.

The result of this situation was that there was no strategic input from the parent company which left the acquired companies in a vacuum. In addition to this vacuum, the compartmentalisation of the group impaired inter-group dialogue and activity. Whilst synergies may have been the reason behind the acquisitions, the mechanisms to enable these to be realised were just not there.

Main Holding themes

- Retain the Managing Executive

- High levels of change to achieve turnaround in financial health
  - Meet budget
  - Change senior management
  - Restructure divisions
  - Rationalise assets
  - Cut expenditure - in marketing, R&D

- Change in management perspective from medium to short term

- Beyond the turnaround a post-acquisition lull
  - No strategic direction
  - Just carry on and meet budget
  - No-one driving synergies

5.5 Conclusions

Chapter five has sought to identify the main changes that take place in the post-acquisition phase of Haspeslagh and Jemison's (1991) acquisition types. In so doing we have extended Haspeslagh and Jemison's (1991) work, which treated change in a partial and somewhat superficial way, and have also been able to test the robustness of their framework.

At the aggregate level of change we have shown in figure 5.2, evidence to support our sixth proposition, that there would be a significant difference between the four acquisition types and a hierarchy of change. However we have found the order to run from Holding, with the most, through Absorption, Symbiotic to Preservation[39]. This tended to suggest that levels of change are more strongly associated with the level of autonomy experienced by the acquisition rather than the level of resource transfer. However, it soon became clear that although this may be the dominant influence, there are important examples of change being more associated with resource transfer, such as change in Managing Executive.

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[39] The acquisition literature suggests a number of other areas of change which have not been tackled directly in our approach above. Communications is often cited as critical in the post-acquisition phase and we suggested in proposition eight that effort in this area would be positively linked with the level of change. This is the case (significant at the .001 level). Following the conclusion above that there is a hierarchy of change running from Holding, though Absorption, Symbiotic to Preservation acquisitions, we found, with a Kruskal -Wallis 1-way ANOVA that this hierarchy also exists for changes in communications, particularly direct reporting and ad-hoc communications. This result was significant at the .02 level.

As we mentioned in Chapter two, the acquisition literature throws up many testable propositions of change against resource transfer or autonomy. Examples of those which might be associated with resource transfer are changes in information technology[40] and personnel policies on appraisals[41], pay and conditions[42] and training[43]. These were all significantly and positively associated with resource transfer and so support propositions ten and eleven[44]. However, as we noted in chapter two, testing the many variables in the acquisition literature would not lead to coherence. For this reason we adopted the seven dimensions of change found in the Sharpbenders study (Grinyer, Mayes and McKiernan, 1988), for a systematic treatment of change in the different types of acquisitions. Upon testing these we found that, for six of the seven dimensions, there were significant differences between acquisition types.

Using the Sharpbender dimensions, we systematically characterised each acquisition type, and, whilst we broadly agree with Haspeslagh and Jemison's (1991) view of Preservation, Absorption and Symbiotic acquisitions, we have been able to add considerably to their work by identifying the actual changes that took place in each situation. We have also managed to emphasise an

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[40] Significant at the .03 level
[41] Significant at the .02 level
[42] Significant at the .05 level
[43] Significant at the .02 level
[44] It is also clear that items such as changes to information technology[44] are significantly and negatively associated with autonomy so that whilst we could argue for the relative importance of either autonomy or resource transfer in terms of association with change, both appear to have an important effect. As a result many items, such as change in information technology and changes in compensation and benefits[44], mentioned in proposition thirteen, do discriminate between the four acquisition types.

important and hitherto neglected acquisition type, the Holding acquisition, and depict the main elements of change associated with it.

In addition to the survey based data, we have added, from our interviews, explanation and nuance from the managing executives, regarding reasons for certain changes and for the adoption of a particular acquisition style. We gleaned a clear sense of preserving core capabilities and defending the acquired company from the parent in the Preservation acquisition, a complete loss of identity and coherence for the acquired company in Absorption acquisitions where the companies are truly integrated, and a sense of despair and pain in the Holding acquisitions which experience turnarounds. In the same order the levels of change increased with Holding acquisitions seeing the most as every effort was made to stem losses, through to Preservation acquisitions making the least in order to keep a winning formula. We cannot be confident of the position of Symbiotic acquisitions on all the changes we have covered although the summary figure 5.2 shows that they exhibit more changes than Preservation acquisitions and fewer than Holding or Absorption acquisitions. In Symbiotic acquisitions there was a greater sense of investment, and trying to do things differently[45].

[45] To gain statistical verification of the 'difference' of Symbiotic acquisitions from the other types, we included its borderline cases and tested all variables discussed above. We only had sufficient observations for 13 variables to run the chi-squared test, and of these 11 were significant at the .02 level.

It is worth appending to this section an observation that we have made considerable use of Sharpbender variables in order to focus upon steps which might be taken to achieve a radically improved performance. The distinct and robust nature of our acquisition types viewed through the lens of the Sharpbenders variables suggests that, rather than a homogenous phenomenon, there may well be different types of Sharpbender.

Post-acquisition management of corporate take-overs in the United Kingdom

by

Duncan N. Angwin

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Contents

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6. Motivations for each acquisition style

6.1 Introduction

Chapter five has shown that there are clear observable differences in post-acquisition styles. In this Chapter we shall search for the motivations that led to these different styles and also be mindful of our discussion in Chapter two which suggested that there are significant difficulties in associating pre-acquisition motives with post-acquisition styles of management. In addition we shall also consider further the distribution of post-acquisition types shown in Chapter four and see if there may be explanation in the motivations for these acquisitions.

6.2 Motives for each acquisition style

The following section examines the motivations behind each acquisition type to uncover why they were managed in specific ways.

6.2.1 Holding Acquisitions

The importance[1] of Holding acquisitions is a significant finding. However it is difficult to understand why there are so many of this type of acquisition. In what ways can they add value to the group? Haspeslagh and Jemison (1991) suggest Holding acquisitions are held to be traded. There was no evidence to support this from our Managing Executives. We also thought that perhaps this was a temporary condition, a post-acquisition lull, which would pass. However for four of the nine Holding acquisitions, between two and three years had already elapsed.

We asked each of the Managing Executives in this acquisition type, why they had been acquired and how value would be created. The motives were generally clear in terms of related diversification rather than any notion of being 'traded'. In this sense it is surprising that the acquired companies subsequently experienced a loss of autonomy and a lack of resource transfer.

In all cases there was a clear evidence that the main issue was the parent company being far more concerned with establishing control, particularly financial control, rather than offering strategic direction or operational guidance.

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[1] Over 20% of pure cases: 36.2% of all cases after adjusting for potential autonomy bias

Circuit Board PLC acquisition of Transistor PLC

Stanton the CEO of Transistor felt the rationale for the acquisition was ostensibly to realise some synergies with a small division but felt that the real reason for the parent company was to appease the City as they had a reputation of growing through acquisition and had just lost a deal. Following acquisition, apart from adopting parent financial controls, there was no further discussion or attempts to create value between the two companies; 'I was extremely frustrated and mystified that I never had a discussion with any Board member of Circuit Board PLC and no discussion as to potential synergy'.

When Stanton was asked what the purpose of having his company acquired as a Holding acquisition, his response was, 'I don't know. What I did put to the board of Circuit Board was, 'Are you a holding company or an operating company?' And they said we are certainly not a holding company, we're an operating company. I said, 'Well what then do you see as group resources that help the operation?, and they said finance. But I said, 'Finance is to me a way of, you know, if you were a Holding company, I would expect that answer'.
Stanton goes on to enquire after a range of resources and services that an operating company provides, only to be told to shut up! The point is that there is a clear gap between executing the deal and subsequent acquisition management.

From our interview data and the questionnaire we can suggest the following as important considerations in Holding acquisitions:

- Financially weak

In most[2] cases, Holding companies were financially weak prior to acquisition. The acquirer concentrated upon tight financial controls to turn the situation around. In the case the acquired industrial services company, Rowland, its Managing Director said, *'we know that they're going to be making losses - this is the right time to make the bid. Lets see if we can buy it and patch it up'*. There may also be a sense of the acquired company being held separately to avoid contaminating the group. In the words of Nelson, Managing Director at an acquired financial services company, '*we were kept at arms length from the rest of the business'*. This may also be an appropriate explanation for Transistor PLC. It would appear that apart from just returning the acquired business to a sound financial footing, there was little if any consideration how any further value could be created. Indeed, whilst the financial appraisal appeared sound, there was only the flimsiest of commercial understandings.

[2] 75% had medium to poor pre-acquisition financial health: (50% had moderately high or very high gearing with a further 25% being average, 44.4% had moderately weak or very weak cashflow with a further 22.2% being average).

- Lack of commercial understanding

Four out of the six interviews we conducted with Managing Executives of Holding acquisitions showed them as very demoralised. They felt that the new parents did not understand their business. Stanton, at Transistor PLC, remarked there was *'a lack of understanding (of) what they bought and why they bought it'*. Nelson, Managing Director at an acquired financial services company, commented that *'the most important aspect is the lack of understanding of anything about an acquired financial services company within the parent group, virtually at any level. There was a lack of understanding of what we were about, there was a lack of understanding about what we could add to the business. We were treated like nothing at the time'*.

The lack of understanding by Head Office meant that hoped for synergies were generally more apparent than real. In the case of an acquired financial services company with a very profitable business, but not core to the parent group, only now, six years after the acquisition, are there attempts to realise synergies.

The apparent lack of understanding from Head Office was often due to an absence of expertise other than financial directors. There appeared to be no one capable of driving the acquisitions forward except in terms of imposing financial targets. So whilst there may have been notions of realising synergies, the strategic horizon was just to ensure the financial soundness of the acquired company. In terms of the changes made therefore we see a substantial change in

financial items and some managerial changes. Thereafter there is a general lull in change reflecting a lack of direction.

- Voiceless Managing Executives

The Managing Executives were also powerless to bring about synergies due to the stringency of the financial reporting system which literally discouraged them from working together and removed their ability to think and act strategically. This was often a source of considerable friction with the incumbent management who felt they have lost their raison d'être. They had been pushed back from a strategic role into an operating capacity and had lost their voice at Head Office.

- Creating value

In Holding acquisitions, value was realised by turning the company around. There may have been intentions to realise synergies but there was no mechanism or person responsible for achieving this aim. For this reason value is captured and there is little evidence of value creation due to a lack of depth in commercial understanding at Head Office, onerous financial controls and a weak Managing Executive voice.

One reason for the relative importance of Holding acquisitions in our survey may be that the recession offered many opportunities for purchasing under-

performing companies. In addition it is certainly the case for some of our respondents that such companies were the only ones they could afford to purchase.

- Conclusion

In essence the reasons for Holding acquisitions are weakness in finance, which justifies the parent imposing stringent financial controls and keeping the acquisition separate from the group to avoid contamination. As a result they may have found it difficult to attract parental attention in terms of their significance and also in terms of their performance. Holding acquisitions were also often in related but different business areas which may not have been fully understood by the parent company.

The financial controls used to reverse the poor quality of the business generally caused the acquisition to lose strategic direction in striving to satisfy short term targets. This demoralised the Managing Executive and sometimes caused considerable damage to the business. The post-acquisition lull, following the wave of financial constraints, is typical of Holding acquisitions with reduced room for strategic manoeuvre. Managing Executives were retained for their knowledge of the markets and the business, but its weakness probably meant little bargaining power with Head Office to enable post-acquisition synergies.

In terms of Haspeslagh and Jemison's (1991) work, they do not provide us with much direction concerning Holding acquisitions apart from saying that they might be traded. In terms of their acquisition rationales of *domain-strengthening*, *domain exploration* and *domain extension* (Haspeslagh and Jemison 1991: 32-34), we find that our Holding cases fall into all these categories. However the commonality appears to be one of making a turnaround possibly because there were few alternative acquisitions available.

6.2.2 Preservation Acquisitions

Preservation acquisitions accounted for over half of our pure cases[3] and is a major acquisition style. The following cameo suggests why Micrometer PLC was treated as a Preservation acquisition.

Utility PLC acquisition of Micrometer PLC

In Andrews's view, the reason for the acquisition was that Utility PLC wanted to diversify from being a regulated business. There was some opportunism, as Utility PLC was under threat of re-nationalisation, 'they had to have things outside the regulated business'.

[3] 34% of all cases when adjusted for potential autonomy bias

Their policy was very much a matter of acquiring related companies to set up a new division. 'We were involved in their industry and so were a good company to acquire. We were a leader in our field and they were only looking for leaders'. 'They had a lot of capital to spend and hadn't integrated backwards so far into the process at that stage'.

Utility PLC used a Preservation style of acquisition management as Micrometer was a strong performer and a market leader. They kept the management as they had been doing well and because they didn't know the business. 'Particularly if you're buying a business you don't know, then if everybody walks away, then what have you got?'

There is a question mark over whether they could have adopted any other style, 'because they didn't have anybody with industrial ability, they didn't actually get to grips with the industrial companies they'd taken over'. 'There was no clear pattern of what they were trying to achieve. I could have sat around waiting for instructions and still be there'. 'There was no synergy here because it wasn't their area, and it's difficult to create because people don't want to break down barriers; their Bailiwicks'.

Haspeslagh and Jemison (1991: 154) suggest that the main reason for Preservation acquisition is *domain-exploration* - a move 'into new businesses which require new capability bases' (Haspeslagh and Jemison, 1991: 34). These

domain-exploration acquisitions can be about acquiring a capability, a platform for further expansion or a business position. We have certainly found similarities in our data, but several acquisitions were Preservation in nature because differences between the companies had been underestimated. Our interview and questionnaire data suggests the following:

- Diversification

61% of Preservation acquisitions are diversifications from the parent activity and of these 7% were unrelated. Whilst superficially synergies are apparent in the related diversifications, post-acquisition they are far more elusive. Four out of the six Managing Executives interviewed complained that the parent company did not understand their business and the rationale for the acquisition was dubious.

- Opportunistic buy

Fredericks comments on the opportunistic nature of these purchases based upon intuitive feel of the market. *'Its fine to say you decide a strategy and then go about implementing it. Its not been my experience. We were bought in an opportunistic way. You can never say this is an opportunistic buy. You've got to have a rationale. You're paying their fees, (management consultants) will come up with a sensible rationale whether one exists or not'*

- Nobody to drive forwards synergies

None of the Preservation acquisitions seemed to be intended to just stand alone as there were many expectations of realising synergies. However, even where the acquired company was seen as a platform upon which to build, the synergies did not materialise. This may be due to a lack of expertise at Head Office and the absence of anyone who understood the businesses to drive through changes. *'When you actually try to implement it, the skills aren't there. Everything you came to make a decision on, no-one had any experience to make the decision and everything becomes, well, we'd better try and do it, so everything becomes an R&D exercise instead of a build'* (Fredericks). The Managing Executives also pointed to the lack of incentives for them to work together and indeed there was a strong defensiveness of territories.

- Strong performers

Preservation acquisitions are strong performers and showed significantly[4] lower gearing and higher cashflows before acquisition than other acquisition types. They were often market leaders and continued to generate good results post-acquisition. This gave the Managing Executive considerable power over

[4] .02 and .01 levels respectively

the running of his company. *'You can spit in their eye'* (Fredericks). This strength allows the Managing Executive to resist change to his operations.

- Conclusion

The main reason for Preservation acquisitions is that they produce excellent results and parent companies do not wish to impair this performance. Whilst some Preservation acquisitions were clearly an attempt to diversify out of an industry, such as Utility PLC's acquisition of Micrometer, there is also a strong sense of the differences between the businesses being greater than hitherto realised. The new parents realise that they are not the experts and the acquired company's Managing Executive defends the business against intrusions. For these reasons the acquired company retains substantial autonomy and is not 'contaminated'[5] by the transfer of resources.

The surprise with this type of acquisition is its prevalence as these companies remain on a stand-alone basis and there appears to be little value created whereas the Haspeslagh and Jemison (1991) suggests that value can be created through realising synergies.

The preference for Preservation acquisitions suggests that companies would rather buy well performing businesses than perhaps embarking upon the difficult

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[5] One might draw a parallel with the 'gift ethic' in that whilst there may be good intentions behind the gift, there are overtones of being in debt.

process of integration. In a few cases there may be an intention to use the acquisition as a platform for further acquisitions but, maybe due to senior management changes in the parent, such long term plans rarely materialise. At best one might say that an opportunity has been acquired, the characteristics of which may change over time. For this reason the acquisition often remains stand-alone whilst circumstances change and whilst good performance continues there is little reason to add to the company or to sell it on.

6.2.3 Absorption acquisitions

Absorption acquisitions are an important part of acquisition activity. The following cameo shows the reasons why Edibles PLC was treated as an Absorption acquisition.

Packers PLC acquisition of Edibles PLC

The acquisition of Edible PLC was part of the rationalisation of the sector. 'If everybody continued running their own businesses, they would all by now not be profitable. Whereas if one organisation started to take them over, then there was an ability to rationalise things. It simply enabled you to close things down, whereas if you sat there all on your own, your factory would suddenly be half full, your distribution and depots would be half full'.

Edibles PLC had been investing in the technology to keep up with the evolving market but couldn't afford to invest any further. 'They were saying 'Oh God, we can't raise any more funds here. We don't know what to do', but at the same time they didn't want to sell it because it was a family business'. Packers PLC bought them so they could continue rationalisation by taking out a nuisance smaller player in the main market and achieve a dominant position in a subsidiary market.

Keaton knew there would be rationalisation but time was needed at the outset to ascertain precisely where the rationalisation would occur. For example 'we knew we were going to close a factory. What we didn't know, until we had time to get into the factory and understand it, was whether they had a really good asset, a really good workforce. Then it may be better to close one of our factories'. Keaton felt it all went 'reasonably smoothly because we understood the business - it was a business familiar to us. We could talk the same language. We could plan it because we knew the things that would be issues'.

Edibles PLC was treated as an Absorption acquisition because a great deal of change was required in terms of rationalising its activities. The only question in the post-acquisition period was to assess the extent of the integration based upon a closer examination of Edibles PLC.

To gain economies, Edible PLC's activities were split up amongst parts of Packers PLC and its identity dissolved. By moving production to different sites these economies were achieved. In this sense Edibles PLC had its autonomy and identity removed and its assets, personnel and knowledge were widely spread within Packers PLC.

Haspeslagh and Jemison (1991: 152) argue that many Absorption acquisitions will be *domain strengthening* because the benefits expected from the acquisition often revolve around achieving greater economies of scale'. We agree with this point of view as our main reasons from our interviews shows;

- The same industry

Absorption acquisitions occur where the businesses are in the same industry and where the acquirer feels themselves to be experts. 88% of Absorption cases were in the same market and/or product areas. This gives a sense of certainty about the widespread changes the parent company undertakes. *'We know the business. The business is my business. They did exactly what we did'*(James)

- Economies of scale

In all interviews with Managing Executives there was a strong sense that substantial economies could be achieved by combining the two companies and rationalising operations. In all interviews there was a clear aim to achieve cost reductions above all else.

- Substantial change is required

De-duplication and rationalisation require substantial change so that the acquired company ultimately dissolves into the parent group.

Industry restructuring pressures account for many of our Absorption style acquisitions and the companies in question were often direct competitors who were beginning to damage each others profitability as separate organisations but together could be highly profitable. All but one of our cases were in mature, static or declining markets. In addition Haspeslagh and Jemison (1991) suggest that domain extension acquisitions could use an Absorption approach where an additional product line is acquired. We also found examples of this approach.

6.2.4 Symbiotic acquisitions

Despite Haspeslagh and Jemison's (1991) claims for the importance of Symbiotic acquisitions, we found very few examples in our survey. Nevertheless, it was clear from our single case this approach had significant benefits. The following suggests why the acquisition of Homeland was handled as a Symbiotic acquisition.

Fortress PLC acquisition of Homeland PLC

In the first instance the acquisition was handled with great care. 'We did not want to unsettle the company and we don't want to come in with big heavy boots because we don't fully understand it, and we wanted the acquired company to continue successfully'.

'We wanted at an early stage, but not too early stage, to integrate the two companies and use the best resource in each company, but its 'use the best resource in each company to keep them semi-independent, rather than use the best resource in each company to pull them together'. The reason for preserving the differences between the two companies is 'in my view, dictated by the market-place. From the outside we are two companies that may be seen as not dissimilar. In actual fact, when you get into the details of what we do in the market-place, what our position is within the industry, we are very, very

different. Homeland's main expertise, skill and resource is in development, marketing and selling of own label, buyers own brand, customer supply products, but the bottom line is that the Homeland company are really operating with, not so much with our own brands, but more in terms of cost engineering, specification engineering for customers around the world; be that own label or something very special. Homeland are also involved more in the general trading area and are more entrepreneurial than a standard branded company. We did not want to lose the distinctiveness. We had competencies in each company that are not the same. I would not put the team at Homeland into a market to develop a brand because they are not marketing people, they're not PR people, they're not sales people. Likewise, I would not try to get the Fortress folks to go and try and develop a new own label range, because the competencies are quite different'. 'So it became clear from the outset that both companies were different, were separate and had a clear market focus and objective on what they should be doing, but at the same time, behind that, we were transferring production / manufacturing into central'.

Homeland was acquired as part of the rationalisation of an industry. However, whilst consolidation in the industry prompted de-duplication of facilities in Homeland and Fortress, such as closing one plant and expanding another, it is very clear that the distinctive quality of this acquisition is the deliberate effort to maintain and enhance differences between the two companies in terms of product association, marketing and sales. An important element of this process

was the transfer of personnel, know-how and product design between the two companies to crystallise the differences.

Maintaining differences was critical to the success of this acquisition. Great importance was attached to preserving the characteristics and competencies of Homeland. This was achieved by significant and highly visible investments and great pains were taken to treat the acquired staff on equal terms with parent staff so that a partnership atmosphere emerged. Instilling confidence in the acquired company was seen as paramount, and changes, other than the initial investments, were subservient to achieving this objective.

The creation of a camaraderie and at least equal involvement of Homeland employees in task forces, fostered a positive outlook towards change so that major changes could take place. This enabled significant transfers of resources between the two companies in terms of employees, products and know-how.

Haspeslagh and Jemison (1991) suggest that in Symbiotic acquisitions, the acquired company is protected from uncontrolled interventions and that the quality of the interface team is key. They suggest that Symbiotic acquisitions move from preserving the acquired company or a state of co-existence to full amalgamation. Whilst we are only examining one case, we do find that there are strenuous efforts to preserve the acquired company upon acquisition and the extensive use of teams and task forces. We shall examine more closely the timing of changes in Chapter eight, but will comment upon an apparent

difference in characterisation of Symbiotic acquisitions. Haspeslagh and Jemison (1991: 149) suggest that 'to succeed in truly amalgamating the organisations symbiotically, each firm must take on the original qualities of the other'. In our case, where nearly four years has elapsed between acquisition date and interview, it is clear that maintaining the differences between the two companies in terms of product and market remains of critical importance and is unlikely to change.

Haspeslagh and Jemison (1991) are very vague about changes that might occur in a Symbiotic acquisition apart from commenting upon the setting up of a gatekeeping structure and a gradual move towards integration through regrouping individuals and some new investment. Based upon the Homeland case, we can suggest that preserving differences are crucial and indeed transferring resources seem to be vital to enhance those differences. We can also see the key role of investment, such as refurbishing the office block, in allowing this acquisition style to operate in terms of generating a partnership atmosphere. Indeed it is worth noting that Symbiotic acquisitions are significantly more associated with investment than other acquisition types.

There were substantial transfers between the two companies as products personnel and know-how were polarised to give maximum differences at the front end of operations. At the back end there was plant rationalisation for economies of scale and a homogenous information technology system was installed.

Change clearly takes on an iterative quality in our Symbiotic acquisition with joint teams and equal input. In the words of Vaughan, *'we were alive enough to the dynamics of the situation. We changed a number of things as we went along'.*

6.3 Dominant style of bolt-on acquisitions

Whilst we have observed distinct acquisition rationales and integration styles, we recorded in Chapter four, that there is a dominance of value capture[6] over value creating acquisitions. The former exhibit low levels of aggregate resource transfer which suggests most corporate acquisitions during this time frame were managed as parcels of assets and bolted onto existing businesses.

Pre-acquisition reasons for adopting a bolt on approach include risk aversion in terms of post-acquisition management or attempts to pick up bargains during a recession. One might suggest that during crises, such as the recession, executive time horizons contract and perspectives become more short term. The concern is for immediate benefits though ownership rather than managing for long term potential which may not be realised and indeed may even have a sting in its tail in terms of internal disruption.

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[6] 72.9% of all our respondents

A further explanation is that pre-acquisition intentions were to realise synergies but the post-acquisition implementation was a great deal more difficult than anticipated. Many Managing Executives of acquired companies agreed with this view and indeed many said the deal had been sold on realising synergies. Figure 6.1 below suggests some reasons for the lack of success in this area with Holding and Preservation acquisitions.

Figure 6.1 Obstacles to realising synergies

Holding acquisitions	**Preservation acquisitions**
Weakness ⇨ may contaminate group ⇨ Managing Executive's lack of influence	Strength ⇨ can resist change from parent and group
Parent ⇨ lack of understanding ⇨ lack of non financial expertise ⇨ no one to drive synergies	Parent ⇨ lack of understanding ⇨ lack of non financial expertise ⇨ no one to drive synergies
Onerous financial controls ⇨ repress management initiatives to realise synergies	Financial controls ⇨ repress management initiatives to realise synergies

Figure 6.1 suggests that synergies are not being realised because the parent is trying to manage through financial controls and there is no other expertise to drive implementation forward. Managing Executives of the acquired companies believed that a distant financial hand was in control, setting abstract financial

standards but divorced from operations. In addition the use of precisely targeted financial controls resulted in the compartmentalising of the acquired company from the rest of the group. This was a strong disincentive to attempt to work with other Managing Executives. The process of financial control then, can easily thwart the well intentioned aims of realising synergies.

These observations relate to a period of several years after the acquisition. On further discussions with the Managing Executives it is only after a much longer period of time that there are real attempts to realise synergies which supports the notion that post-acquisition management is far more difficult to achieve than is commonly supposed. Most post-acquisition plans focus upon pay-back periods with much shorter time scales than the seven or eight year time frame suggested above. In many cases the renewed drive for synergy only resulted when there was a change in senior management at group level[7] which tends to suggest that a different skill set is required at senior level, perhaps moving from deal doer to post-acquisition implementor and value creator.

In the case of an acquired financial services company, it took a new group Chief Executive to make changes some five years after the original acquisition. *'He's got his feet under the table now. He's decided he's fed up with people in the acquired company doing their own thing and he wants to lay down some guidance at last, where it fits into the group'* (Nelson, 'Holding acquisition').

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[7] Clearly such changes cannot be ascribed to the original post-acquisition management.

In the case of Micrometer PLC, a new Chief Executive to Utility PLC was appointed three years after acquisition and six months later he appointed somebody new to run the division. As Andrews, the Chief Executive of Micrometer puts it, *'he talked to everybody and said what's happening about synergy? Since then we've managed to get some synergy going and I've actually stepped up a role to run a number of companies, so I've actually been able to start trying to do some of the things I think they should have been doing'* (Andrews, 'Preservation acquisition').

Interestingly enough many of the Managing Executives took the view that the new management who were now striving for synergies would not have made the original purchase. At an acquired financial services company, the Chief Executive, Nelson remarked that, *'I think if he'd been around they wouldn't have done it because what he's done is identify their core business, and an acquired financial services company's business is not core at all to the group'* (Nelson). In the case of the acquisition of Transistor PLC, the new divisional executive's opening comments were *'I never wanted to buy you in the first place. Don't know why we bought you; can you tell me?'*

This appears to support the idea that actual post-acquisition management aiming to achieve synergies was far more difficult and elusive than realised by the acquirer. It may also support the notion for a different approach to the acquisition by group management once it has been brought on board. This

appears to be a clear case where implementation serves to thwart strategy as plan.

Whilst we feel that there is merit in the argument raised above that more synergies were expected than realised which resulted in more acquisitions with low resource transfer than perhaps intended, we are still faced with a large number of low transfer acquisitions. Real benefits in these situations, are one-off immediate gains such as increasing group size and market presence. This would fit with the prevailing trend towards short-termism, where there is little thought for creating and growing value. Why engage in the messy and uncertain business of integration when you can buy an instant advantage? Indeed this line of argument supports the assertion that companies are increasingly purchasing businesses as parcels of capabilities/ resources rather than developing their own as the outcome is certain in the short term and can be achieved rapidly.

If, as we suggest that this is an important trend in acquisitions, then it does raise the question of why such an important development has been overlooked in the acquisition literature and given such scant regard by Haspeslagh and Jemison (1991). We may well suggest that this finding does not support the managerial tradition in business schools. By reducing acquisitions to a commodity-like status, there is perceived to be little to be managed as such, as assets are bought and sold rather than developed.

6.4 Conclusion

In this chapter we examined the reasons behind the use of each acquisition style. It is clear that there are considerable differences in rationale for each. However we also note that Haspeslagh and Jemison's (1991) explanations, in terms of domain strengthening, extension and exploration, do not sit easily with the integration framework. For instance Holding acquisitions could be any of the three domain possibilities. This suggests that their domain classifications are insufficient prescriptors of post-acquisition management and that the link between pre-acquisition strategy and post-acquisition implementation requires further work.

We also recognised the predominance of 'bolt-on' acquisitions and suggested that this may reflect a recognition of the difficulties of post-acquisition management. There may well be a change in the way in which acquisitions are perceived, as ways of purchasing parcels of capabilities to be used for instant advantage and then sold, rather than embark on the difficult and risky business of integration and development.

7. Insiders and Outsiders in post-acquisition management

7.1 Introduction

The role of top management in the acquired company is seen as a critical factor in post-acquisition management (Kitching, 1967, Schweiger, Ivancevich and Power, 1987, McCann and Gilkey, 1988, Siehl and Smith, 1990, Cannella and Hambrick, 1993). In particular top management crucially re-establishes strategic leadership (Shrivastava, 1986) after the disruption of acquisition. However there is a question over whether the incumbent Managing Executive or a new executive should manage the newly acquired company. Incumbents can be

perceived as either the 'standard bearer of the old culture' (Mirvis and Marks, 1992: 270), which an acquirer may value highly, or as 'hindrance to effective integration' (Mirvis and Marks, 1992: 270), where an acquirer wishes to make substantial alterations. The new executive on the other hand can be seen as a force for change.

There is considerable evidence to show that there is a high turnover in senior management of acquired companies. Chapter three noted that Hayes (1969) reported 58% of incumbents had left their companies within five years of the acquisition and Hambrick and Cannella (1993), broadening the debate by looking at turnover in the top team, found 67% of all acquired senior executives had left within four years. For our responding sample, Section 5.3 in Chapter five has shown that there is also a high level of change in the management team and in Managing Executives[1], even though less time has generally elapsed than for the studies cited above.

The apposite question is whether changing the incumbent executive leads to different outcomes. Do incumbents or new Managing Executives do things differently? In tackling this issue, the turnaround literature makes strong claims for the use of new executives to make a difference and, crucially, break the mould of previous operating patterns (Grinyer, Mayes and McKiernan, 1988). In particular the turnaround literature focuses upon the use of new Managing

[1] 51.5% of our cases saw a change in the Managing Executive of the acquired company

Executives drawn from outside the company to achieve radical change (Whittington, 1993: 122). This finding is supported by a stream of literature upon the relative merits of the use of Insiders and Outsiders, which argues that the latter make far more changes than the former (Helmich and Brown, 1972).

In this chapter we intend to extend the Insider / Outsider debate into the acquisition arena, where it may provide valuable insight in terms of linking managing executive type to levels of post-acquisition change. On this basis we shall set out to address proposition thirteen which suggests that Organisational Outsiders will make more changes than Organisational Insiders in a post-acquisition context.

Gabarro's (1987) work on taking charge of companies in the USA has broadened the Insider / Outsider debate by choosing to define these categories based upon an industry distinction rather than an organisational one. As his results apparently contradicted the prevailing wisdom of the levels of change associated with Insiders and Outsiders, we will examine different definitions of Insider and Outsider to assess which definition of the dichotomy has most strength in a post-acquisition context and also to shed light upon Gabarro's apparently contradictory findings. This enquiry will be addressed through proposition fourteen which suggests that the Insider /Outsider distinction at the organisational boundary will be more clearly apparent, in terms of the level of post-acquisition change, than at the Industry level.

The distribution of change in the Managing Executive was shown, in Section 5.3 in Chapter five, to be unevenly distributed across acquisition types. In this chapter we will seek to extend Haspeslagh and Jemison's (1991) work by examining whether a Managing Executive type can be associated with an acquisition style. Clearly there is evidence to suggest that we may find such links as the previous chapter has suggested wide variation in the levels of change by acquisition type and the turnaround literature strongly suggests higher levels of change are associated with Outsiders.

Whilst Chapter four has already shown that a successful outcome to acquisitions cannot be ascribed to particular styles, we will return to the issue of success in terms of the use of Insiders and Outsiders in different contexts. If the links between Managing Executive type, levels and nature of change are evident, and there are appropriate levels and types of change for each acquisition style, then we may conclude that the use of a Managing Executive type may be more successful for one acquisition style than another.

7.2 Insiders versus Outsiders

Before we set about examining whether there are significant differences between Insiders and Outsiders in terms of the level of change associated with each in the post-acquisition phase, we should be aware that there are different

definitions of these terms. The traditional Insider / Outsider literature, embodied in studies such as Carlson (1962), Helmich (1971), Helmich and Brown (1972), set the boundary for this dichotomy at the organisation level. This is echoed in the turnaround literature (Slatter, 1984, Grinyer, Mayes and McKiernan, 1988, Whittington, 1993). Later work by Gabarro (1987) has adopted a different definition by concentrating upon an industry divide with Insider defined as having five or more years of experience in the industry of the new assignment (Gabarro, 1987: 38). As a consequence we shall label Insiders / Outsiders as 'Organisational' when drawn from within or outside the acquired company and 'Industry' where the new executive is drawn from the same or different industry.

7.2.1 Broad characteristics

Our responding sample consisted of 61.4% Organisational Insiders (43 cases) and 31.4% Organisational Outsiders (23 cases) with 5.7% of respondents not identifying their position. In terms of new executives drawn from the same or different industries, 66.7% came from the same industry (22 cases[2]) and 33.3% came from different industries (11 cases). These distinctions are shown in figure 7.1 below.

[2] This excludes incumbents as we later test differences between new Industry Insiders / Outsiders

Figure 7.1 Responding sample: Organisational and Industry Insiders/Outsiders

Organisational Outsiders Managers from different industries = 11 cases	**Outsiders** Managers from the same industry as the acquired business = 12 cases	**Organisational Outsiders** **⇒ 23 cases**
Organisational Insiders Incumbents = 33 cases	**Insiders** New managers drawn from within the acquired business = 10 cases	**Organisational Insiders** **⇒ 43 cases**

Different industry	**Same industry***
⇓	⇓
11 cases	**22 cases**

*excluding incumbents

7.2.2 Organisational Insiders / Outsiders and aggregate change

The Organisational Insider / Outsider literature shows consistent findings that Organisational Outsiders make more organisational changes than Organisational Insiders (Grusky, 1960, Carlson, 1962, Helmich, 1971, Helmich and Brown, 1972). The turnaround literature also provides significant support for this argument by observing that the appointment of a new chief executive is very often crucial in bringing about change (Grinyer, Mayes and McKiernan, 1988: 54, Whittington, 1993: 122). These observations led to proposition thirteen, that in the post-acquisition context, we would expect Organisational Outsiders to make more changes than Organisational Insiders.

We were concerned to avoid any bias that might result from the amount of time that had elapsed between the date of acquisition and questionnaire return, as our Kendall tau-b and Spearman correlation coefficients had shown that the amounts of change recorded in acquisitions was significantly and positively associated with elapsed time. A Mann-Whitney U test-Wilcoxon rank sum test (see appendix 7.1), of time elapsed between acquisition date and questionnaire return by Organisational Insider / Outsider, returned a two tailed result of 0.86. This suggests no significant difference between Organisational Insiders / Outsiders based upon the amount of time elapsed between acquisition and questionnaire return.

We used a Mann-Whitney U - Wilcoxon rank sum test, shown in table 7.1, to compare the level of aggregate change by Organisational Insider and Outsider.

Table 7.1 Aggregate change by Organisational Insiders / Outsiders

Mann-Whitney U - Wilcoxon Rank Sum W Test

Mean Rank	Cases	
44.96	23	Outsider
27.37	43	Insider
	--	
	66	Total

		Corrected for ties	
U	W	Z	1-Tailed P
231.0	1034.0	-3.5477	.0002

Table 7.1 shows strong support for proposition thirteen, with a result significant at the .0002 level, that Organisational Outsiders make significantly more changes than Organisational Insiders. This finding fits observations in the Organisational Insider / Outsider and turnaround literatures. Before discussing this finding we shall examine other definitions of Insider / Outsider.

7.2.3 Industry Insiders / Outsiders and aggregate change

Gabarro's (1987) work, on executives taking charge of subsidiary companies in the USA, focused upon the distinction between new executives drawn from the same industry as the assignment and those drawn from outside the industry. He concluded that 'Industry Insiders made more changes earlier than Industry Outsiders'[3] and goes on to say that 'the number of changes made by Industry Insiders was greater not only in the Taking-Hold stage but throughout the entire taking-charge process' (Gabarro, 1987: 48). Whilst the suggestion that Insiders make more changes than Outsiders appears to contradict the observations made above, the focus upon new executives and an industry boundary for the dichotomy may be the reason for such results.

To unravel the apparent contradiction between Gabarro's (1987) findings and those of prior research into Insiders and Outsiders, we shall first examine Gabarro's definition of Insider / Outsider and test against aggregate change and

[3] We shall be looking at the timing of changes separately in chapter 7

against his chosen change variables. We will then seek to explain away Gabarro's (1987) apparent difference with prior research, from an acquisition perspective, and also draw conclusions about proposition fourteen which seeks to establish whether the Insider / Outsider dichotomy is more pronounced in terms of change, at the organisational or industry level.

For our responding sample, we have 33 cases of new Managing Executives of which 22 are drawn from the same industry and 11 from different industries. Using a Mann-Whitney U test for two independent samples, our questionnaire survey data strongly suggests a difference, with a P value of 0.08, between Industry Outsiders and Industry Insiders, with the former making many more changes than the latter. Table 7.2 shows our results.

Table 7.2 Aggregate change by Industry Insiders / Outsiders

Mann-Whitney U - Wilcoxon Rank Sum W Test

Mean Rank	Cases	
14.98	22	Same industry
21.05	11	Other industry
	--	
	33	Total

U	W	Exact 2-Tailed P	Corrected for ties Z	2-Tailed P
76.5	231.5	.0894	-1.7020	.0888

For aggregate change in the post-acquisition phase, many more are carried out by new Managing Executives drawn from outside the industry of the acquired company than by new Managing Executives drawn from the same industry.

However in our group of new managing executives drawn from the same industry we are also including new managing executives which have been drawn from the acquired company.

Gabarro (1987) examines just those executives drawn from outside the company receiving the new executive and then distinguishes between those from the same industry and those from other industries. If we look at our industry distinction again, but in terms of the new executives being drawn solely from outside the acquired company, we can see in table 7.3 that the two tailed t-test for equal variances is .18 which is not significant.

Table 7.3 Aggregate change by Industry Insiders / Outsiders (excluding new executives from the target company)

Variances	t-value	df	2-Tail Sig	SE of Diff	95% CI for Diff
Equal	-1.36	20	.188	4.822	(-16.627, 3.493)

Same industry n = 12 mean = 30.8 SD = 12.525 SE = 3.61
Other industry n = 10 mean = 37.4 SD = 9.489 SE = 3.00
Levene's Test for Equality of Variances: F= 1.783 P= .197

This result suggests that amongst new executives drawn from outside the acquired company there is no significant difference in terms of the amount of aggregate change associated with executives from the same industry and those drawn from different industries. This is somewhat at odds with Gabarro's (1987) conclusion, that executives drawn from the same industry will make more changes than executives drawn from different industries. The difference in our

results may be due to examining change at the aggregate level whilst Gabarro (1987) chose to look at just structural and personnel changes, which to our mind is but a small subset of change.

If we adopt Gabarro's (1987) variables based upon structural and personnel changes we find that there is evidence to support his case. The Mann-Whitney U - Wilcoxon Rank Sum W Test in table 7.4 shows that significantly more changes are made in structural and personnel variables by new executives drawn from the same industry than by those executives coming from other industries.

Table 7.4 Change in Gabarro's (1987) Structural and Personnel variables by new Industry Insiders and Outsiders.

Mean Rank	Cases	
18.48	20	Same ind
11.50	11	Other ind

	31	Total

		Exact	Corrected for ties	
U	W	2-Tailed P	Z	2-Tailed P
60.5	126.5	.0396	-2.0513	.0402

This evidence is at odds with table 7.3 which shows no significant difference between Industry Insiders and Outsiders in terms of aggregate change, and if one examines the means in table 7.3, if anything, Industry Outsiders make more changes than Industry Insiders.

The issue clearly is one of whether Gabarro's (1987) variables can be said to be representative of change in general. It is clear from his work that he believes that there are other significant areas of change such as change in control systems and entry[4] activities but these were excluded from his results as he felt they did not have a common metric (Gabarro, 1987: 176-178). The exclusion is then more for reasons of method than the phenomena under study.

From this discussion we shall bear in mind that although Industry Insiders make more changes than Industry Outsiders in terms of structural and personnel changes, the broad picture is that at the industry level for aggregate change there is little distinction between these management categories.

For aggregate change, it would appear that the distinction between Insider and Outsider is most pronounced at the organisational level. Table 7.5 shows the means and standard deviations of Insiders and Outsiders as determined by these organisation and industry (including new managing executives drawn from within the acquired company) levels of distinction.

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[4] Orientational meetings, briefings, visits

Table 7.5 Insiders, Outsiders and aggregate change compared by level of analysis

Value Label	Mean	Std Dev	SE	Cases
For Entire Population (missing cases=5.7%)	24.96	14.24		66
Organisational Outsider	33.43	11.37	2.37	23
Organisational Insider	20.44	13.64	2.08	43

Levene's test F = 1.376 p = .245 t-test for equal variances = .000

Variable Value Label	Mean	Std Dev.	SE	Cases
For Entire Population (missing =53%)	31.00	12.30		33
Industry Insider	28.22	12.81	2.73	22
Industry Outsider	36.54	9.43	2.84	11

Levene's test F = 3.107 p = .088 t-test for equal variances = .066

Proposition fourteen is therefore supported as it would seem that the organisational distinction of Insider and Outsider is more apparent in terms of aggregate change than the industry distinction.

We should also note that a further dichotomy worthy of examination is between the incumbent executive and new executives. We also found this to be a very significant distinction in terms of aggregate volume of change and for change at the functional level. We might suggest that there may be a gradient of change from the incumbent executive moving outwards from the organisation to the most distant Outsider. Using a Kruskal-Wallis 1-Way Anova, testing management type against aggregate change, table 7.6 shows there is some merit in this suggestion.

Table 7.6 Aggregate change by executive type

Mean Rank	Cases	
24.88	32	Incumbent
32.95	10	New org Insider
40.71	12	Same industry
50.50	9	Related industry
38.25	2	Unrelated industry[5]
	--	
	65	Total

			Corrected for ties		
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
15.7676	4	.0033	15.7835	4	.0033

It is interesting to note that whilst there does indeed appear to be a gradient of change, this does not continue for new executives brought in from unrelated industries. This may be a reflection of the new executive from unrelated industries having little knowledge of the acquired business and therefore an unwillingness to engage in substantial change.

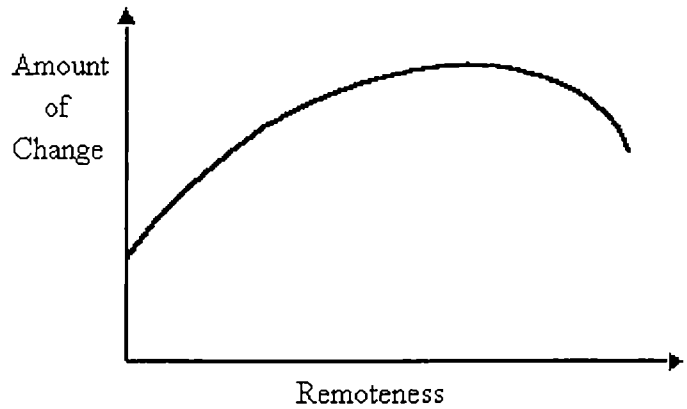
We also ran the above test for Gabarro's (1987) change criteria and found the mirror image of the above, significant at the .015 level, with incumbents and new Organisational Insiders making most changes in these areas and Industry Outsiders making least. This tends to suggest that Gabarro (1987) has focused upon change issues which are more closely associated with Organisational Insiders in any case and this is the reason why his 'gradient' of change appears to be running in a different direction to our findings for aggregate change. It is this concentration on two sub-sets of change which has resulted in the apparent contradiction with the general observations in the literature that Outsiders make

[5] To ensure this value isn't unduly distorting the result, the test was re-run with four variables and was significant at the .01 level.

more changes than Insiders. In surfacing this contradiction which is more apparent than real, we can suggest that there is room for further research upon the types of change associated with the hierarchy of executives outlined above.

At the aggregate level, there is a hierarchy of change running from the incumbent to the Outsider which we show in figure 7.2. The horizontal axis, which is termed 'remoteness', is intended to describe the distance in relatedness terms of the business from which the managing executive was last involved compared with the business of the acquired company.

Figure 7.2 A hierarchy of change



In our earlier table 7.3 we observed that there did not appear to be any significant difference between Industry Insiders and Outsiders by aggregate change. However from the Kruskal-Wallis 1-way anova in table 7.6 and figure 7.2 above, we can see that new executives drawn from unrelated industries are moderating the effect of new executives from related industries. Whilst re-running the tests shows an increased level of significance, the overall picture for

aggregate change is one of a more marked dichotomy between Organisational Insiders / Outsiders than at the industry level. For the remainder of the thesis we shall remain with the Organisational Insider / Outsider distinction.

Drawing upon the interview data[6] to give some explanation for the significant difference in the levels of changes associated with Organisational Insiders / Outsiders we frequently encountered the question of whether, under the new ownership, the Managing Executive of the newly acquired company should wield an axe or a scalpel. Often the Outsider has a mandate for change, it is the basis upon which he has been brought in and, as a new broom, needs to be seen to take charge. In other words there is an expectation of change both from above and below. The Outsider is also not tied to personal allegiances in the acquired company and is less restricted in his ability to take action. As Derby, the new chief executive of a medium sized acquisition in the medical sector says, *'as an Outsider you can stand back and see things, often clearer, in a visionary strategic sense. You have the advantage of being totally objective, without personal allegiances'.*

When the Outsider makes changes, this is often on a much greater scale than the Insider. Martin, a director of the acquiring company in charge of integrating a very large communications acquisition, described the changes in the following way; *'the acquired company was a bit stuck in its methods of working and*

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[6] See Appendix 3.4

practices. We went through there like a knife through hot butter. I think we felt the changes were pretty substantial and it needed a new person to implement that. New blood to implement that. And if the management had just stayed the same, although they bought into the changes, I think they would have found it very difficult when push came to shove, to actually do it'.

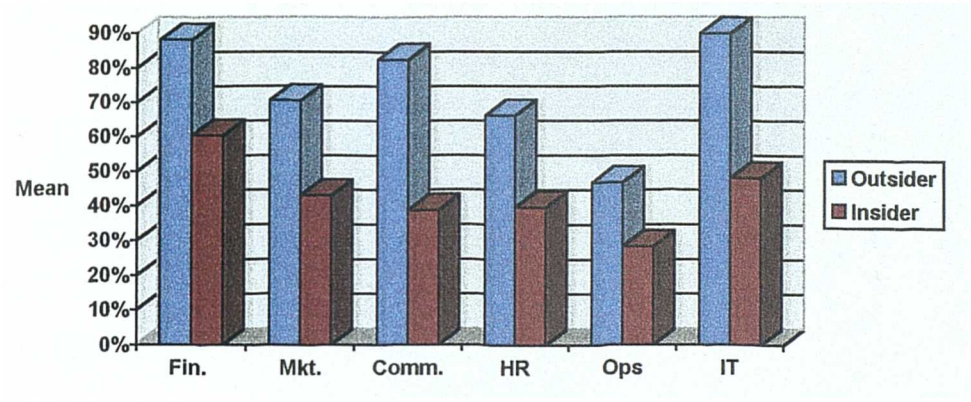
By keeping the Insider, the acquirers are generally looking for less change. Insider Andrews, chief executive of an acquired small precision engineering company, says that *'they (the acquirer) didn't interfere with the business. They just let me run the company'.* Blackman, an Insider and managing director of an acquired packaging manufacturing business, explained the lack of change as *'there wasn't that much to change 'cause it (the acquired business) was very successful and even now it's still going along the same track. There was nothing for them to do, so they (the new parent) were quite happy'.*

For Insiders, the budget was a bible and provided targets were met they were left to carry on as they thought fit with minimal parental interference. As Crossman, Insider and chief executive of medium sized acquisition in the transport industry, puts it, *'If we're keeping within budget or exceeding budget, they (the parent company) don't interfere - you have considerable autonomy'.* However the lack of change associated with Insiders was also a result of them fiercely guarding their independence. In the words of Fredericks, Insider and chief executive of a large acquisition in the communications sector, *'I have found my major role throughout was defending the business from the owners'.*

7.3 Organisational Insiders / Outsider and functional change

So far we have examined the Organisational Insider / Outsider distinction from the perspective of aggregate change. Gabarro's (1987) focus upon certain types of change suggests that we need to see whether this distinction is maintained in different areas of change and whether it is more pronounced in some areas than others.

Figure 7.3 A comparison of the mean number of changes by function for Organisational Insiders / Outsiders



Key: Number of change variables in brackets by function
Fin. = Finance (7), Comms. = Communications (3), Mkt. = Marketing (8),
HR = Human Resources (14), Ops = Operations (13), IT = Information technology(3)
Outsiders = 23, Insiders = 43

Figure 7.3 shows a clear difference between the mean number of changes by function associated with Organisational Insiders and Outsiders. The results of testing for differences in the distribution of change, for each function, using a Mann-Whitney U - Wilcoxon Rank Sum W Test, are shown in table 7.7.

Table 7.7 A comparison of the distribution of change by function for Organisational Insiders / Outsiders

Functional area	1-tailed level of significance	Explanation
Finance	.001	Outsiders make more changes than Insiders
Marketing	.004	
Communications	.0005	
Human resources	.0004	
Operations	.005	
Information technology	.002	

Table 7.7 offers strong evidence for the pervasiveness of the distinction, between Organisational Insider / Outsider, based on the aggregate number of changes for each functional area. When we examined each function in more detail we concluded that this distinction remained robust although there were different emphases of change by Insider / Outsider. These results are contained in Appendix 7.2.

The difference in emphasis between Insiders and Outsiders within functional areas is illustrated in table 7.8, where we suggest areas of change significantly associated with Outsiders.

Table 7.8 Main themes of change associated with Outsiders

Themes	Variable	Outsiders making changes	Sig. level re Insiders
A] **Changing the acquired management**	Remove senior executives (q20g)	90.9%	.01
	New senior executives (q20d)	77.3%	.02
	Reassign management (q20c)	77.3%	.001
B] **Establishing control**	Improving financial controls(q17c)	82.6%	.001
	Control expenditure (q17f)	73.9%	.004
	Inventory controls (q21e)	65.0%	.03
	Stock take (q21g)	57.9%	.001
	Improve quality control (21j)	45.0%	.03
C] **Accessing and improving information**	Improved marketing information to the CEO (18i)	67.0%	.006
	Set up direct reporting (q19c)	76.2%	.003
	Change information system (q22d)	65.2%	.04
D] **Putting parent systems in place**	Adopt parent financial reporting(q17d)	91.3%	.11
	Adopt parent pay and conditions(q20n)	67.7%	.004
	Adopt parent inventory controls (q21f)	45.0%	.03
	Adopt parent information systems (q22c)	52.2%	.10
E] **Making major structural changes**	Change to the finance dept. (q17b)	82.6%	.04
	Change to the marketing dept. (q18b)	81.0%	.02
	Change to manufacturing operations (q21b)	55.0%	.02
	Change to Information Technology dept. (q22b)	73.9%	.0001
F] **Refocusing marketing**	Review marketing plan (q18c)	81.0%	.01
	Focus marketing on a segment (q18d)	67.0%	.0007
	New marketing initiative (q18e)	76.2%	.009
G] **Expansion and investment initiatives**	New marketing initiative (q18e)	76.2%	.009
	Adopt new processes (q21l)	44.4%	.04
	Invest in research (21m)	43.8%	.01
H] **Reinforcing change**	Change employee incentives (q20l)	68.2%	.09
	Change performance appraisal (q20m)	68.2%	.0003
	Adopt parent pay and conditions(q20n)	66.7%	.004

The questionnaire survey shows that Outsiders are significantly more associated with change than Insiders and this is supported by top teams, where Outsiders

are present, being more action oriented in 76.2% of cases (significant difference with Insiders at the .003 level) and injecting new values in 81% of cases (significant difference with Insiders at the .002 level). This echoes the findings in the Sharpbenders (1988) study which noted that with new CEOs came new functional directors and more changes[7].

Important areas of change associated with Outsiders are changes in the management of the acquired company (Theme A). This is probably to remove obstacles to change and to signal new directions.

Outsiders are clearly much more associated with establishing and improving controls (Theme B). This is a vital part of taking charge of the business and also an exercise in looking for improvements in terms of efficiency and cost reduction. Linked to this is the issue of accessing information and establishing information pathways (Theme C). This is essential for the new Managing Executive to get to grips with the business. It is noticeable however that the information and communications which are cited as most important are formal structures rather than informal ones which might be linked to more tacit knowledge. Although the formal approach gets to grips with the acquired business, there is a question to what extent it really accesses the core values of the acquisition.

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[7] The new functional directors may have been brought in to increase the rate of change or build supportive coalition (Grinyer, 1998 - personal correspondence).

Associated with Outsiders is the putting in place of parent procedures and systems (Theme D). This is not so surprising as the Outsider is very much the new parent's man and likely to be their champion. However it is clear from the significance levels that Insiders are also subject to many of these changes, such as in the finance area.

Outsiders not only make more changes than Insiders but it also appears that they make more major changes (Theme E).There is a natural grouping of changes as structural changes which are clearly more associated with Outsiders. We will examine this issue of magnitude of changes in the next section.

Marketing appears to have a special importance amongst the functions (Theme F). Where the changes are about refocussing or expanding marketing activities, then an Outsider is often present. The Insiders clearly defend and protect the marketing function.

Outsiders also appear to be associated with expansion and investment to a greater extent than Insiders (Theme G). Although these results are significantly different from Insiders, the percentage of Outsiders so involved is rather less than half.

Finally Outsiders appear to reinforce changes by altering employee appraisal in particular but also the incentive system (Theme H).

7.4 Insiders / Outsiders and the impact of change

In the above discussion there are suggestions that whilst Outsiders make more changes than Insiders in the post-acquisition phase, they might also be associated with more radical change. To assess whether this is the case, we shall look for associations between those items which are strongly associated with Outsiders rather than Insiders and correlate them against managerial perceptions of the impact these changes would have. We would expect a degree of correlation between areas of change perceived to have high impact and the actions of Outsiders which are significantly different to Insiders. Insiders are more likely to wish to maintain the status quo and in so doing, focus upon incremental changes whereas Outsiders are interested in making a considerable difference to the organisation and will focus upon changes having a substantial impact.

To establish the impact that changing the items in the questionnaire survey would have in an organisation, we surveyed a group of 40 executives[8], asking

[8] Warwick executive MBAs, Easter 1997

them to rank the change items on a scale of 1 for low impact to 5 for high impact. Taking the average of these scores we then ranked the items and then proceeded to correlate them with the changes significantly more important to Outsiders than Insiders. To achieve this correlation we used Kendall's rank order correlation coefficient[9], adjusting for ties, as it is appropriate for this ordinal data. The results, reported on a functional basis, are contained in table 7.9

Table 7.9 Impact[10] and significance of change, associated with Outsiders

Function*	Correlation	Significance level
Finance	.45	.15
Marketing	**.83**	**.04**
Communications	.50	.48
Human resources	**.78**	**.05**
Operations management	.29	.24
Information technology	.33	.60

* items within the function were ranked in order of highest significance level

Table 7.9 shows a rather mixed picture of association between changes ranked by average assessed general impact and changes significantly associated with Outsiders. In the finance area there is a modest correlation at .45 but this is not significant. In marketing however there is a strong correlation between impact

[9] This test has 91% power of Spearman (Cohen and Holliday, 1982: 160). It has less stringent assumptions on distribution.

[10] Average assessed general impact

of change and association with changes specific to Outsiders. This result is significant at the .04 level and supports the notion above that substantive changes in marketing are strongly associated with Outsiders. Similarly in the human resources area we find a high correlation between the impact of changes and changes associated with Outsiders which is significant at the .05 level. In areas such as operations management and information technology there is low correlation with low significance. We might conclude therefore that the significant difference between Outsiders and Insiders is in terms of changes made in the marketing and human resource areas in particular, with a weak echo of this in the finance area. In the operations management area this pattern is not evident and may be due in part to the fact that there is less distinction between Insiders and Outsiders in terms of the amount of change that takes place in this area and that changes in operations do not appear to be regarded as having such a significant impact upon the organisation.

We also examined the impact of changes against a ranking of changes based upon those carried out by the largest numbers of Outsiders. The results from this are contained in table 7.10.

Table 7.10 Impact[11] and frequency of change by Outsiders

Function*	Correlation	Significance level
Finance	**.66**	**.08**
Marketing	.59	.13
Communications	.81	.22
Human resources	**.88**	**.006**
Operations management	.49	.66
Information technology	.33	.60

* items within the function were ranked in order of highest level of citation by Outsiders

Table 7.10 shows there are some strong correlations between the changes most often cited by Outsiders and the level of average assessed general impact they might have on the acquired company. However these correlations are not always significant. For instance there is a modest correlation between those changes in the marketing area frequently associated with Outsiders and the impact they have on the acquired company but the significance level is just .13. For the finance function the modest correlation of .66 is significant at the .08 level and in the human resources area the high correlation is significant at the .006 level. Correlations in the operations and information technology area were low and not significant.

The notion that Outsiders are more highly associated with high impact changes is probably too sweeping a generalisation. The tables above do give some

[11] Average assessed general impact

support to the proposition but it is clear that it has more force in some areas than others. In particular the areas of marketing, human resources and finance appear to show that Outsiders will be associated with high impact changes, whilst this is not the case in areas such as operations management and information technology.

When we ranked the items of change in terms of greatest to least impact and examined the top half of the ranks[12] we discovered that this included 100% of our marketing items, 50% of human resource items and 42% of finance items. Only a third of Operation Management items and Information technology items were included in the top half of the ranks. This does suggest, albeit rather crudely, that changes in marketing, human resources and finance tend to be perceived as having more impact on an organisation and these are the areas on which Outsiders focus their attention. There may also be a case that these changes are somewhat easier to make than those in operations management or information technology. To assess this issue, we ranked the means and standard deviations of each functional area based on ease of change.

[12] Due to the number of ties in the ranking of changes by impact, it was felt that to look at a smaller portion than 50% would be unhelpful.

Table 7.11 Ease of making changes by function.

Function	Mean	Standard Deviation	Standard Error
Communications i=3	2.30	.52	.30
Marketing i=8	2.85	.42	.14
Human resources i=14	3.07	.42	.11
Finance i=7	3.18	.52	.19
Operations management i=13	3.29	.65	.18
Information technology i=3	3.40	.26	.15

Note: *1 = Easy to change, 5 = Difficult to change*
i = Questionnaire items

Whilst we should be cautious of these results as the number of items for each function is small, there is a pattern that suggests that changes in marketing, human resources and finance are perceived to be somewhat simpler than in operations management and information technology. This maybe due to the innate qualities of the operations management and information technology areas, or, in an acquisition context, these areas might be much less transparent upon take-over.

From the above then we may conclude that Outsiders make many more changes than Insiders and whilst these changes are in all functions, there is a greater concentration on changing marketing, human resources and finance. These areas also have been rated as areas which will have the greatest impact upon a business and to some extent it appears that changes in these areas are somewhat easier to carry out than in other functions.

7.5 Insiders / Outsiders by acquisition type

The previous discussion has supported the view of Insider and Outsiders being differently associated with change in a post-acquisition context. On this basis we should expect Insiders and Outsiders to be differently distributed between acquisition styles. The previous chapter has shown for instance how Preservation styles are strongly associated with low post-acquisition change and Absorption acquisitions are associated with high levels of change, and we might therefore expect Insiders to dominate the former and Outsiders to dominate the latter. It is unclear however which executive type will be associated with Holding and Symbiotic acquisitions.

Figure 7.4 overleaf shows the distribution of our responding sample upon Haspeslagh and Jemison's (1991) contingency framework.

Figure 7.4 Organisational Insiders / Outsiders by acquisition type

Resource Transfer*	Autonomy 1.0	2.0	3.0	4.0	5.0
1.0 - 1.4	I,I,I		I,I	I,I,O	I,I,I,I
1.5 - 1.9	**Holding**	I	I,I,I	I	I **Preservation**
2.0 - 2.4	I,I,O	I	I,I,I, O,O,O, O,O	I,I,I,I,I,I,I,I, O,O	I,I
2.5 - 2.9		I	O,O,O		I
3.0	O	I,I		I,I,O,O	
3.1 - 3.4	I,O		I	I,O	
3.5 - 3.9	**Absorption**	I	O		**Symbiotic**
4.0 - 4.4	O,O			O	
4.5 - 5.0	O,O	O			

** 3 respondents failed to identify their position*
Matrix co-ordinates are contained in Appendix for Chapter 6
Note: 'I' refers to Insider. 'O' refers to Outsider

A visual inspection of the data above shows clearly that there are concentrations of Managing Executive type. A cross-tabulation of Insiders against Outsiders by post-acquisition type is significant at the .004 level[13]. Table 7.12 below summarises the proportions of Insider and Outsiders for each of the acquisition integration types.

[13] This test has been run for differences between Holding, Preservation and Absorption boxes. There are too few observations for Symbiotic acquisitions to be included. If all borderline cases are randomly assigned between the four acquisition types, the significance level recorded is .01.

Table 7.12 Organisational Insiders / Outsiders by acquisition type

Acquisition type			Number of cases	Total in box
Holding	Insiders =	89%	8	
	Outsiders =	11%	1	9
Absorption	Insiders =	25%	2	
	Outsiders =	75%	6	8
Preservation	Insiders =	86%	19	
	Outsiders =	14%	3	22
Symbiotic	Insiders =	33%	1	
	Outsiders =	66%	2	3
			Total cases*	42

* *Unallocated borderline cases = 25*
Missing values = 3

It is clear from the above that Insiders dominate in Holding and Preservation acquisitions whilst Outsiders are the majority in Absorption and Symbiotic acquisitions[14]. Whilst one might expect a preponderance of Insiders in Preservation acquisitions, as these acquisitions by definition show fewer changes, it is somewhat surprising to find a majority of Insiders in Holding acquisitions where, with low autonomy, one might expect significant change. Clearly then there is not a straight forward relationship between autonomy and Managing Executive type. Appendix 7.3 shows the variable effect of autonomy on Managing Executive type.

[14] When we adjust for potential positive autonomy bias, the effect is to subdue these results but not remove the emphases observed.

Clearly this is not the whole picture and the resource transfer axis of the contingency framework affects the distribution of Insiders and Outsiders. A visual inspection of figure 7.4 suggests that resource transfer is positively associated with the presence of Outsiders and negatively associated with Insiders. These associations are significant at the .01 level for each of our resource transfer items (see Appendix 7.3). It would seem from this that whilst the relationship between resource transfer and executive type is consistent, autonomy does not behave quite so predictably[15].

Explanation for the positive association of resource transfer with the presence of Outsiders included the 'conquering army' syndrome, where everything the acquired company stands for is seen as outmoded and to be replaced with superior parent systems. In the words of James, the new Outsider of an acquired professional services company, *'We were pretty successful and had a winning formula. We knew we were doing it right and that everybody else did it wrong, so we just imposed our culture totally on the target. We knew the business. Their business was our business. We were just going to get in and swallow it and absorb it. It does focus the mind and you haven't got to have a debate about which computer system is best - you just go in and shut theirs down and transfer your own'.*

[15] Appendix 7.4 looks more closely at the effect of autonomy for all the key variables and concludes that with medium autonomy there are some unusual characteristics

At the other end of the extreme where there was low resource transfer, Organisational Insiders were remarking upon a lack of direction from the parent. It seems that low resource transfer is linked with a lack of knowledge about the acquired business. In our cameo, Insider, Stanton commented upon a lack of understanding of what had been purchased. For this reason there is little resource transfer and no change in the Managing Executive for *'if they left, what would be left?* (Insider, Andrews). Another Insider, Fredericks, Managing Executive of a large communications company, expressed many Insider's sentiment about resource transfers from the new parent: *'The owners contribute absolutely nothing to the business at any stage'*.

This foregoing discussion now allows us to make sense of the distribution of Insiders and Outsiders in the Holding and Symbiotic acquisition categories. Holding acquisitions exhibit low autonomy and low resource transfer. Low autonomy does not have a significant effect upon the executive type but low resource transfer is associated with the retention of Insiders and so we find Insiders predominating in Holding acquisitions[16].

For Symbiotic acquisitions with high autonomy and high resource transfer we might expect Insiders to remain as they show some association with high autonomy although high resource transfer suggests the presence of Outsiders.

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[16] There may be an element here of original intentions to fix and sell the company quickly. However, these Holding companies had been in existence for a while and this maybe exposes the difficulties between intentions and post-acquisition reality.

With just three cases, we cannot draw strong conclusions and can just remark that there are two Outsiders and one Insider. This finding is however a little surprising as the idea behind Symbiotic acquisitions is the transfer of resources whilst maintaining the boundary of the acquired company. Indeed Haspeslagh and Jemison (1991) characterise Symbiotic acquisitions as preserving the acquired company's capabilities and allowing them to take the initiative in terms of any transfers. For this reason we would really not expect Outsiders, and removing the Insider must give concern that this acquisition form may not be fully realised.

In general it appears that resource transfer is a dominant determinant of whether Insiders or Outsiders are present. The distribution of managing executive types then seems to fit rather well with Haspeslagh and Jemison's (1991) distinction of value creating and value capture acquisitions where the former are associated with Outsiders and the latter with Insiders.

7.6 Acquisition styles, Insiders / Outsiders and change

The previous section has suggested that Insiders and Outsiders are associated respectively with value capture and value creating acquisitions. However, there is something of a contradiction as section 6.2 showed Outsiders to be associated with more change than Insiders. There is an argument to be made that allocation

of Outsiders to Symbiotic acquisitions and Insiders to Holding acquisitions is the wrong way around[17].

Whilst earlier sections have shown that the level of change associated with Outsiders is at a significantly higher level than Insiders in all acquisition types, Insiders show a greater range of association with change. This is illustrated in table 7.13 which shows that, despite the low numbers of cases in many categories, there is greater variation in the levels of change associated with Insiders by acquisition type than Outsiders who appear to achieve similar levels of change regardless of acquisition type. The Kruskal-Wallis tests in table 7.13 therefore show associations[18] between Insiders and acquisition types, whereas Outsiders do not.

Table 7.13 Insiders, aggregate change and acquisition type[19]

Mean Rank	Cases	
24.69	8	Holding
18.75	4	Absorption
12.81	18	Preservation
19.33	3	Symbiotic

	33	Total

				Corrected for ties	
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
8.7491	3	.0328	8.7609	3	.0326

[17] There is some support for this notion as we examined perceptions of success by Insiders and Outsiders of the acquisition types and found Outsiders are most successful where there are high levels of change and Insiders where there are lower levels.

[18] Whilst the significance level for Insiders shows a significant value of .0326, the numbers of cases is too low for this to be any more than indicative.

[19] Due to small numbers, all borderline cases have been randomly assigned to acquisition types upon which they border.

Table 7.13 (contd) - Outsiders, aggregate change and acquisition type

Mean Rank	Cases	
5.00	1	Holding
8.29	7	Absorption
8.25	4	Preservation
10.00	4	Symbiotic

	16	Total

			Corrected for ties		
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
.9627	3	.8103	.9655	3	.8096

The high levels of change associated with Outsiders in all acquisition types suggests that there is merit in the notion that they have a mandate for change and indeed that there are expectations for change. This is well captured in the remarks of Insider Andrews, managing director of an acquired precision engineering firm, who said, *'day one everybody expects change and they're bewildered if it's absent'*. In addition Outsiders are not encumbered by the burden of the acquired company's past history. In the words of Outsider Derby, chief executive of an acquired medical company, a Preservation acquisition, *'you've got the advantage (over an Insider) of being totally objective and you haven't got personal allegiances which I think is underestimated in business. As a newcomer you don't have that emotional burden'*.

Insiders on the other hand would seem to be more sensitive to different acquisition styles. In well performing businesses they are in a sufficiently powerful position to resist change and yet in turnaround situations are able to carry out sweeping alterations. As we showed in our cameo, Stanton

restructured and turned around his electronics business inside a year. The evidence suggests that Insiders are not shy of taking tough decisions although they are more sensitive and protective of the core capabilities of the acquired company.

7.7 Conclusion

There is a robust difference between Insiders and Outsiders, in terms of their association with levels of change in a post-acquisition context. We found this difference to be present at both the aggregate and functional level for an organisational distinction. This confirmed proposition thirteen that Organisational Outsiders make more changes than Organisational Insiders. We therefore concord with the earlier observations of the Insider / Outsider debate, and extend this stream of literature into the acquisition arena.

We also examined the Insider / Outsider distinction at the industry level. Our findings, that there was little difference in aggregate change between Industry Insiders Outsiders, differ from Gabarro's (1987) work, which suggested Industry Insiders make more changes than Industry Outsiders. We concluded this was entirely the result of choice of measures as we were able to observe his findings by adopting his two sub-sets of change We remain unconvinced

however that these two sub-sets of measures are comprehensive indicators of change.

Reviewing the distinction between Insiders and Outsiders from an industry and organisational level, we agreed, with proposition fourteen, that the organisational distinction was more robust.

In terms of functional change we observed that there was a difference in emphasis in terms of which areas were targeted for change by Insiders / Outsiders. On balance we found that Outsiders tended to change those areas which were perceived to have high impact and were easier to change, such as in finance and marketing. More difficult areas, such as operations management and information technology, where the impact might take longer to occur, were less associated with Outsiders.

Changes closely associated with Outsiders were, taking charge by changing the acquired company's management, putting controls in place and accessing and improving formal information flows; putting parent systems in place; making structural changes, refocusing marketing, expanding and investing in activities and reinforcing change.

Having established differences between Outsiders and Insiders we moved from a unitary view of acquisitions to the contingency approach of Haspeslagh and Jemison (1991). A limitation of their work is to overlook the role of the

managing executive of the acquired company. In seeking to relate Insiders and Outsiders to acquisition types, we found that resource transfer was a more important determinant of managing executive type than autonomy. This allowed us to associate Insiders with value capture acquisitions and Outsiders with value creating acquisitions. However this also appeared to raise a contradiction as autonomy is more associated with level of change than resource transfer and the Insider / Outsider distinction is apparent based upon levels of change. In other words we found Insiders, who are generally associated with lower levels of change, in Holding acquisitions previously characterised as turnarounds and experiencing high levels of change. Outsiders on the other hand, who are associated with high levels of change, were in Symbiotic acquisitions where change is generally perceived to quite low. We therefore wondered if the allocation of Insiders / Outsiders was optimal and examined the association between executive type and levels of change across acquisition types.

Although Outsiders make more changes than Insiders, the levels of change associated with them remained similar despite different acquisition types whereas Insiders displayed significantly different levels of change . Outsiders then, seemed less sensitive than Insiders to acquisition types. They are more focused upon the business of taking charge and making relatively easy, high impact changes to match the expectations of stakeholders. Insiders however, have a much greater range of possibilities due to their knowledge of how the business operates and their embededness in the acquired company. They can act

as defender and protector as well as stringent cost cutter. They have the means to bring about change, or indeed impede it, at their finger tips.

Levels of change are associated with the extent of autonomy in the acquired company. However, although Outsiders are clearly linked with high levels of change and Insiders with fewer changes, their association with acquisition type appears to be more a function of resource transfer. This suggests that for Holding and Symbiotic acquisitions the allocation of Outsiders and Insiders is the wrong way around. In other words, autonomy should be an important determinant of executive type, rather than resource transfer. This line of reasoning receives some support from Wensely and Angwin (1995), that executives are reasonably comfortable in managing resource transfer but find setting autonomy levels rather difficult. It would seem then that the autonomy dimension is rather more complex than commonly acknowledged.

8. The timing of changes

8.1 Introduction

An important question for those managing acquisitions is whether change in the post-acquisition phase should be initiated quickly or slowly (Business International, 1992). Should newly acquired companies be approached cautiously or in a 'gung-ho' manner? A more cautious approach may help learning (Mirvis and Marks, 1992), but could feed the dangers of prolonged uncertainty, whereas a rapid approach may minimise the damage of loss in confidence although could result in companies 'shooting themselves in the foot' (Yunker, 1983) by widespread disruption.

Despite the importance of this issue, most post-acquisition studies have tended to have a rather inert quality and those that do recognise the importance of the timing of implementation, such as Haspeslagh and Jemison's (1991) work, are very vague about when moves take place.

Mindful of this observation, in this chapter we will examine the issue of the timing of changes in the post-acquisition phase. We shall then try to combine these observations with the findings of earlier chapters to create an integrated picture of post-acquisition change in the UK.

To inform our discussion on the timing of changes in the post-acquisition phase, we shall draw upon Gabarro's (1987) work, which identifies clear waves of change when new managing executives take charge of subsidiary companies in the US. In extending Gabarro's (1987) work into the acquisition field, we will examine, through proposition sixteen, whether there are similarities in the patterns of change in both situations.

We shall also consider whether the taking charge process progresses at similar rates. In proposition seventeen, we suggest that the taking charge process will be more rapid in a post-acquisition situation than in taking control of a subsidiary company.

In Chapter seven, we examined the patterns of change, in terms of the volume of changes made, associated with the use of Insider and Outsider managing

executives and concluded there were significant differences at the organisational level. Gabarro (1987) has also observed differences between Insiders and Outsiders in terms of the speed with which change is initiated. In this Chapter we shall re-visit the issue of Insiders and Outsiders, but in terms of the speed with which changes are initiated, to see whether Gabarro's observation of significant differences is maintained.

Throughout this thesis we have been testing Haspeslagh and Jemison's (1991) contingency framework to see whether their suggested typology is robust. In terms of the volume of changes initiated, Chapter five found significant differences between the four acquisition styles. In this Chapter we shall re-visit the contingency framework to see whether the suggested typology is robust in terms of the speed with which changes are carried out in each acquisition style. In Chapter two we argued that there should be a hierarchy amongst the four acquisition types, based upon the speed with which changes started, and this hierarchy would be determined more by level of autonomy than level of resource transfer. We suggested, in proposition fifteen, that the hierarchy would run from Absorption acquisitions being the fastest, through Holding, Symbiotic and finally Preservation.

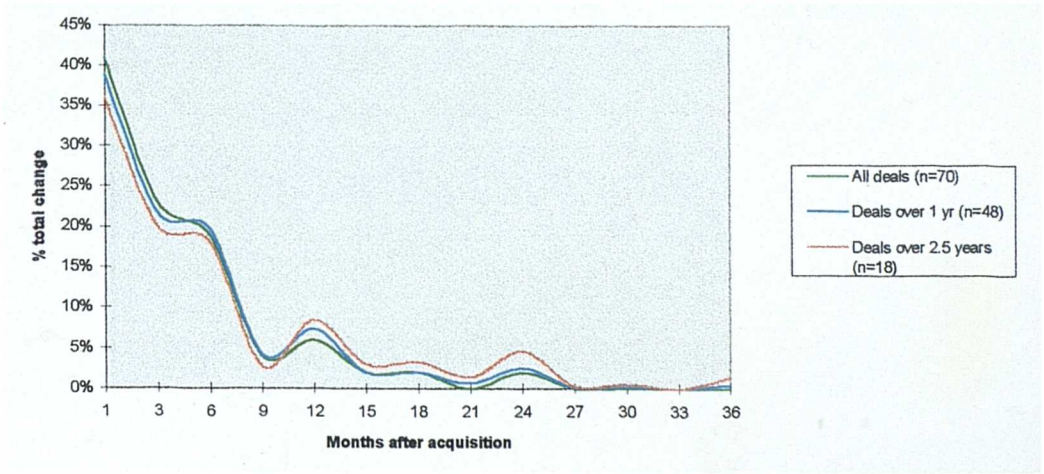
In conclusion to the Chapter, we shall couple our observations on the speed of change with the results from Chapter five, on the volume of change, to enable us to take a view on the severity of the change for each acquisition style. From

these patterns we will suggest that quite different managerial approaches to each acquisition type are warranted.

8.2 Patterns of post-acquisition change

One of the major findings of the survey was that immediately after acquisition, a large number of changes are started in the acquired company. This is illustrated in the following figure which shows the levels of aggregate[1] change since the acquisition took place for all our respondents. We anticipated some time bias in our responding sample and have therefore also shown the pattern of starting points for aggregate change in acquisitions where at least one year and two and a half years[2] had passed since take-over.

Figure 8.1: Post acquisition aggregate change



[1] Aggregate change is the total number of changes recorded for all change items (questions 17 - 22 in the questionnaire), for all cases, against the amount of time elapsed between the acquisition date and when the change was started.

[2] The taking charge process takes up to two and a half years (Gabarro 1987)

The patterns of aggregate change shown in figure 8.1 suggest similarity despite time elapsed between deal and questionnaire return. In particular the most noteworthy feature is the enormous amount of change recorded at the outset of the post-acquisition period. Forty percent of change was started in the first month under new ownership and eighty three percent of all changes were begun within the first six months[3].

By the end of the first year, when there was a renewed burst of activity, the vast majority of changes had been initiated with 94% of all changes having started for all our responding sample[4].

The second year of ownership shows more changes being started but at a much reduced level to the first year. There is a noticeable lull in the final quarter of that year and then a third mild resurgence in activity at the two year mark.

The main area where our sub-samples diverge is around and after the two year mark. This is not surprising as more time has elapsed for these acquisitions to initiate new changes. However even in acquisitions where two and a half years have elapsed, we still see a very similar pattern to our total sample. This suggests that changes in the post-acquisition phase are initiated very rapidly indeed, with a major wave at the outset. Although the questionnaire asked for

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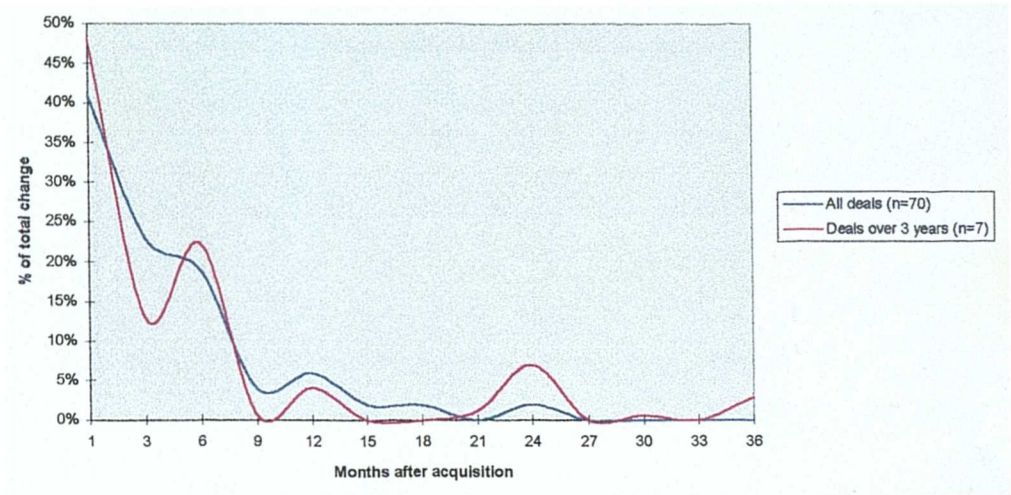
[3] 81% (acquisitions over 1 year), 78% (acquisitions over 2.5 years)
[4] 92% (acquisitions over 1 year), 87% (acquisitions over 2.5 years)

the start time of changes to be given in months, many respondents annotated their questionnaires saying *'change started on day one!'*.

It is worth examining acquisitions where more than three years have elapsed to gain a little more perspective upon the 'tail' end of change initiation. For our acquisitions where more than three years has elapsed[5] we have just seven cases[6] which is likely to mean a greater volatility in their pattern. Figure 8.2 compares acquisitions over three years with our full responding sample.

Figure 8.2 Post acquisition aggregate change



As expected there is greater volatility with our three year sub-sample which exaggerates many of the features commented on above. In particular respondents recall an even greater amount of change started at the outset of the

[5] The average time elapsed for our sub sample of acquisitions over three years is 43 months (3 years 7 months)

[6] There is no apparent bias towards a particular acquisition type but small *n* prevents testing

post-acquisition phase and a more marked peak at six months. They see a lull in activity after nine months and then two further peaks at twelve and twenty four months. There also appears to be a modest rise at thirty six months. With just seven cases we can only point out this sub sample perceives changes in the post-acquisition phase as very marked at the outset with rapidly diminishing waves through the first year

To an extent changes may be grouped as executives 'round' their perceptions. However the surge in activity which they identify at the two year mark does appear to be noteworthy and they clearly perceive a 'second' wave of activity at the mid point of the first year followed by a later surge at the two year point.

In our interviews, executives remarked frequently upon the high level of change at the outset of acquisition. Reasons for this included, *'you must act quickly'* and *'be seen to be taking control'*. There is a clear feeling that taking charge means seizing the initiative and 'profiting from the merger vacuum period in which people expect changes' (Bragado, 1992: 27).

There are clear parallels here with taking charge of turnaround situations, the conventional wisdom of which is described by Khandwalla (1995: 163) as 'shocking the system'. 'You must get everyone's attention. You've got to make everyone in the organisation, from the man who sweeps the floors to your immediate staff, understand that you mean business' (Bibeault, 1982: 152). 'Speed of action is essential' (Slatter, 1984: 130) and 'vigorous action was

necessary to achieve a change' (Grinyer, Mayes and McKiernan, 1988: 105). These explanations for substantial and immediate change in turnarounds clearly resonate with the immediate wave of change we have identified for the beginning of the post acquisition phase.

8.3 Taking charge waves of change

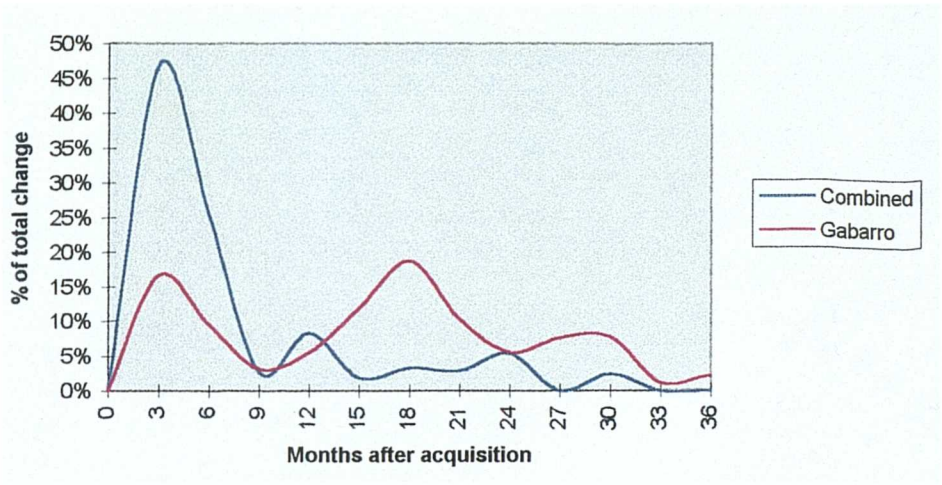
The preceding figures have shown waves of change in the post-acquisition phase. To gain further insight into these waves, we discussed in Chapter two, the work by Gabarro (1987) on executives taking charge of companies in the US. Over a period of two, to two and a half years, Gabarro (1987) identifies three quite distinct waves of change which we felt might also be evident in the post-acquisition period.

In proposition sixteen, we suggested that the patterns of change uncovered in the post-acquisition phase will be similar to those observed by Gabarro (1987). In representing the patterns of change in the post-acquisition situation, and comparing them with the waves observed by Gabarro (1987), we will also be able to comment upon proposition seventeen, that there may be a difference in the speed of taking control of both situations.

To aid comparisons, we have examined Gabarro's (1987) variables in isolation from our other questionnaire items, adopted his common metric (Gabarro, 1987 appendix C: 183), and applied this to acquisitions over two years old. Appendix 8.1 shows how we have matched Gabarro's items and adopted his time array technique for personnel and structural changes.

The combined result of our organisational waves of change are set against Gabarro's (1987) in figure 8.3.

Figure 8.3 Comparison of Organisational waves of change



Gabarro data (1987: 16)
Survey data (appendix 8)
Cases over two years (n=26)

It is clear that there are waves of change in a post-acquisition context although they have quite a different pattern to those observed by Gabarro (1987). The extent of the disparity is clear. Even when we used the same items as Gabarro, applied his common metric and used his time array process, clear differences emerged. In particular, at the outset there is a tremendous difference in the level

of activity experienced in acquisitions as opposed to taking charge of subsidiary companies[7]. After this substantial wave of change at the outset, acquisitions see a rapid decline in the level of change started whilst Gabarro's companies experience their most major wave of change. In both sets of companies there is a further reduced wave of change, and indeed acquisitions appear to experience a fourth and even smaller wave of change before tailing off towards the end of the second year. One might suggest that, rather like earthquakes, the severity of the first wave of change amongst acquisitions leads to a greater number of after-shocks than for taking charge of subsidiary companies.

Proposition sixteen suggested that the patterns of change in a post-acquisition situation would be similar to those in taking charge of subsidiary companies. Our evidence does point to waves of change in the post-acquisition phase, but the timing and magnitude of these waves is quite different from those observed by Gabarro (1987).

We do need to be cautious in this observation as there are important differences between the two studies. Gabarro's (1987) data is based upon taking charge of companies in the US, whilst we are examining acquisitions in the UK. There are also important method differences in that Gabarro (1987) uses four longitudinal and ten historical case studies whereas we are employing a cross-sectional

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[7] To match Gabarro's (1987) study we chose to assume zero change on the acquisition date (a grouping choice by Gabarro), although our respondents made it very clear they made many changes on day one. In addition we might venture that if there had been high levels of change amongst Gabarro's companies at the beginning of the taking charge period, he would have reflected this in his graphs.

survey. The longitudinal case studies in particular enable him not only to record the real time of change but also to capture repeated changes. Our survey approach is far more limited in this regard and reflects our wish to find when changes started rather than their duration or repetition.

Gabarro's (1987) capture of repeated change means that he has recorded a higher average number of changes on average for his cases and this is why in figure 8.3 we felt that to compare volume of change would be misleading[8]. We must also be mindful that capturing longitudinal data may give greater emphasis to repeat changes that occur later in the period under study. Our cross sectional approach may therefore be understating the levels of change later in the post-acquisition phase. Against this we must set the sorts of change under consideration. It is clear with Gabarro's (1987: 177) data that the more major Organisational changes do not recur often (unlike personnel changes). We have also targeted specific areas of change which in Gabarro's system will pick up some repetitions[9]. For personnel changes we will be understating the number of changes in Gabarro's (1987) terms.

Despite the reservations made above, it would seem that change amongst acquisitions does appear to be more intense than in Gabarro's (1987) companies.

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[8] For our 25 cases there were 121 observations of the timing of change for Gabarro's Organisational changes. In the survey respondents provided timings of change for 60% of the changes they recorded. We suggest therefore that there are about 194 changes for 25 cases: an average of 7.7 changes per company. Gabarro's (1987: 16) graph suggests an average of 25 changes for each of his subsidiaries.

[9] For Gabarro a repetition of changes in sub-units could be picked up in our survey by recording a change in the finance function at one time and then the HR function at another time.

With such a marked wave of activity at the outset of the post-acquisition phase, we suggest that there is more than just a 'taking hold ' process at work but also a 'reshaping' stage. In general terms there appears to be little time for immersion in the business to consider how to engage in re-shaping. The later waves seem more reminiscent of 'consolidation' and 'refinement'[10]. There would appear to be far more urgency involved in taking charge of an acquisition than a subsidiary company. In this sense, we feel we can agree with proposition seventeen, which suggested that the changes associated with taking charge of acquisitions would be initiated more rapidly than for executives taking control of subsidiary companies.

Reasons for the greater intensity of change in a post-acquisition context, may well be a reflection of the depth of crisis associated with a company being taken over. There would appear to be considerable pressure upon executives to act and assume control, both from the new parent wishing to discover what it has bought and wanting to bed the acquisition down, as well as from the acquired workforce who want to know where they stand and 'the new rules of the game'. Unlike taking charge of a subsidiary, the situation in an acquisition is altogether more extreme with a far greater unknown on all sides.

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[10] We have not gone into a detailed comparison between the waves of change as the method and contextual differences may be causing significant distortion.

8.4 Insiders / Outsiders and the timing of change

Gabarro (1987) also examines the differences in the patterns of change by managing executive type. In particular he observes that Industry Insiders make more changes more rapidly than Industry Outsiders. This adds to an extensive literature regarding the differences between Insiders and Outsiders by focusing upon an Industry rather than Organisational distinction for Insiders / Outsiders and, most importantly, adds an explicit time component.

Superficially Gabarro's (1987) work appears to contradict the established Insider / Outsider literature in suggesting that Insiders make more changes more rapidly than Insiders. Regarding volume of change, prior work had strongly argued that Outsiders make more changes. In our discussion in Chapter seven we resolved this issue by using different definitions for Insiders / Outsiders, at the Industry or Organisational level, and also suggested Gabarro's (1987) choice of variables gave only a partial view of change and were most closely associated with Insiders rather than Outsiders. Clearly in considering the speed with which change is implemented we should bear these observations in mind.

Gabarro's (1987) explanation for Industry Insiders acting more rapidly than Industry Outsiders is that the former bring a more directly relevant experience which enables more rapid learning and action, 'particularly during the taking hold stage' (Gabarro, 1987: 48). For Industry Outsiders, in the words of one of

Gabarro's (1987: 49 - 50) interviewees, *'a lot of his instincts are off and it will take him a while to really understand what this is about'*.

To the best of this author's knowledge there are no other studies in the acquisition literature that examines the issue of Insiders / Outsiders and the timing of changes, and, as remarked earlier, the broader work on Insiders and Outsiders has tended to look at the magnitude of change rather than its timing. However the related turnaround literature argues for the impact of Outsiders and suggests that if there is a need for radical change, then a new managing executive is critical (Slatter, 1984, Grinyer, Mayes and McKiernan, 1988). There seems to be an assumption in the turnaround literature that Outsiders will move more rapidly and decisively than Insiders although, to the best of this author's knowledge, there has been no explicit testing of the issue of managing executive type and change initiation over time in turnarounds.

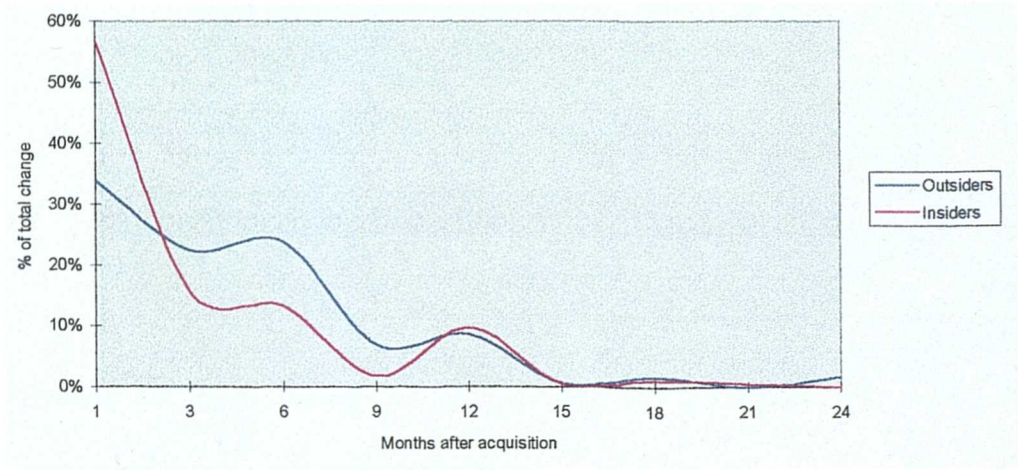
8.4.1 Organisational Insiders / Outsiders and aggregate change

We shall begin our examination of Insiders and Outsiders, in terms of the speed with which changes are started, by firstly looking at aggregate change. To avoid possible distortion caused by the amount of time elapsed since deal completion,

we shall examine a sub-sample of respondents where between one and two years[11] had passed since acquisition date and questionnaire return[12].

Figure 8.4 shows the distribution of change by Insider / Outsider for our sub-sample of acquisitions between one and two years old.

Figure 8.4 Timing of changes by Organisational Insiders / Outsiders in acquisitions 12mths - 24mths old.



Insiders make a lot of their changes very rapidly while Outsiders have a more sustained approach in the first year. Whilst Gabarro's (1987) observations related to an Industry distinction, we find that Insiders are quicker off the mark than Outsiders. Although the latter clearly start with a high level of change, there is also a second wave of major change at around the six month period

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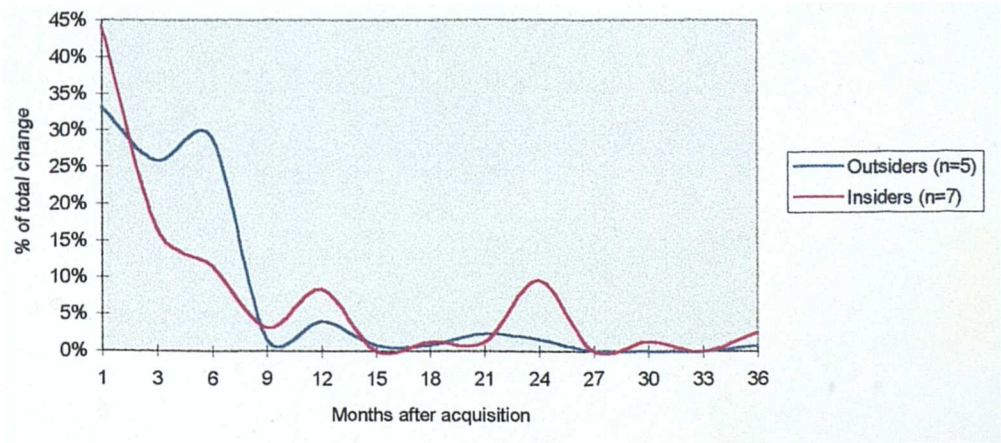
[11] We would have liked to have broadened this sub-sample to the two or even three year mark but the differences between time elapsed between deal and questionnaire return for the two parties became significant.

[12] The Levene test for equality of variances shows no significant differences between Insiders / Outsiders by elapsed time (see appendix 8.2)

followed by a further lesser wave at the year end. This does seem to resonate with Gabarro's (1987) generic pattern of two important waves of change although for Outsiders Gabarro (1987:49) observes that the second wave of change is more substantial than the first.

Clearly this representation gives us a good insight to the beginning of the post-acquisition period but is less informative as we move into the second year. To provide greater detail on this issue, figure 8.5 shows the differences between Insiders and Outsiders in acquisitions where at least thirty three months have elapsed. This choice of cut-off date has been determined by removing time bias, but of course this has been at the expense of having to use fewer cases[13].

Figure 8.5 Timing of change by Insider / Outsider for acquisitions over 33 months old

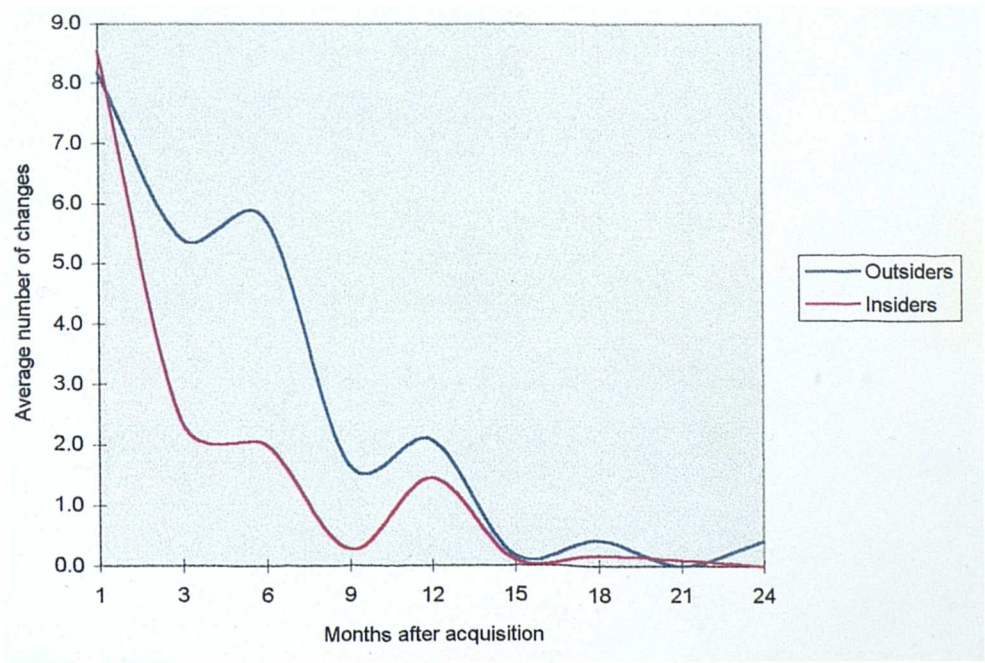


[13] The Levene and t-tests show no significant difference between Insiders / Outsiders beyond this date by elapsed time (see appendix 8.3)

For the first year we find a similar pattern to that commented upon above. However it is evident that, from the end of the first year, the Insider is periodically involved in further waves of change whereas the Outsider is far less active at initiating change than at the outset. We might suggest therefore that Insiders are more rapid than Outsiders at the beginning of the post-acquisition phases in terms of initiating change and then the impetus falls away quickly. However there are clearly periodic bouts of change which continue throughout the post-acquisition phase. Outsiders on the other hand make proportionately fewer changes early on but show high levels of activity for the first six months. Thereafter, whilst there are other waves of change they are very subdued.

If we now incorporate the volume of change with the timing of change the following picture emerges.

Figure 8.6 Timing and volume of change by Insiders / Outsiders for acquisitions 12 - 24 months old



From figure 8.6 we can observe that Insiders move with considerable speed in the first instance, and with a high level of change, but this soon falls away. The Outsider however sees a high sustained level of change initiation in the first year. Thereafter the absolute levels of activity are low.

8.4.2 Organisational Insiders /Outsiders and functional change

The speed with which Insiders make changes is born out at the functional level. To test for differences we examined the mean time of changes by using a two independent samples t-test to look for other variations in the distributions (Cohen and Holliday 1982). Table 8.1 shows the results for the speed with which change in functional areas by Organisational Insiders / Outsiders. The first column of results shows the percentage of items where Organisational Insiders acted more rapidly than Organisational Outsiders and the second shows the percentages of statistically significant differences by functional area.

Table 8.1: Organisational Insiders / Outsiders by speed of starting change

Functional area	% of items where Insiders acted more rapidly than Outsiders	% of change items where a significant difference*
Finance (i=7)	85.7%	14.2%
Marketing (i=8)	100%	37.5%
Communications (i=3)	100%	0.0%
Human resources (i=14)	78.6%	21.4%
Operations (i=13)	100%	69.2%
I.T. (i=3)	100%	0.0%

Note: i = number of variables *Significant is set at the .10 level and less

Table 8.1 suggests that there is weak but consistent support for the proposition that Organisational Insiders initiate changes more rapidly than Organisational Outsiders. For 94% of the change items in the questionnaire, Organisational Insiders started changes more rapidly than Organisational Outsiders although this was only statistically significant for 33% of items.

Organisational Insiders move more rapidly in initiating change as a result of being in situ with a up and running mechanism for action. It is noticeable from table 8.1 that Insiders' rapidity is more marked in operations than other functional areas. In Chapter seven we argued that this was a complex area, difficult to change and also one with less perceived impact. For these reasons Insiders were more likely to stand out from Outsiders who would target easier areas which had a greater immediate impact upon an acquisition. The areas of finance and human resources in table 8.1 show much lower percentages of items where Insiders act more rapidly. We shall return to the issue of impact and ease of change after we have examined other types of Insiders /Outsiders.

8.4.3 Industry Insiders / Outsiders and aggregate change

Examining other distinctions for Insiders and Outsiders, using a Kruskal Wallis-one way ANOVA, we believe there may be a sequence with incumbents making changes fastest followed by new Organisational Insiders and then

Organisational Outsiders. Thereafter in the sequence, when we look at just Organisational Outsiders, the picture is less distinct (see figure 8.7).

Figure 8.7 Differences in speed of making changes by management type (acquisitions 12 - 36 months)

Mean Rank	Cases	
6.83	6	New organisational Insider
13.42	6	Same industry
13.42	8	Related industry
4.00	2	Unrelated industry
	--	
	20	Total

				Corrected for ties	
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
7.6357	3	.0542	7.6645	3	.0535

Although executives coming from the same Industry appear to start changes more rapidly in all areas than those from related industries, executives from unrelated industries disrupted the sequence as they were more rapid than executives from the same and related industries[14]. This is illustrated in the Mann-Whitney U - Wilcoxon Rank Sum W Test in figure 8.8 below.

Figure 8.8 Comparison of Industry Outsiders from unrelated and related industries in terms of aggregate change and elapsed time (Acquisitions over 1 yr)

Mean Rank	Cases	
6.25	8	Related Industry
2.50	2	Unrelated Industry
	--	
	10	Total

		Exact	Corrected for ties	
U	W	2-Tailed P	Z	2-Tailed P
2.0	5.0	.1778	-1.5667	.1172

[14] The Levene and t-tests show no significant difference between Industry Outsiders from unrelated and related industries, for acquisitions over 1 year, by elapsed time (see appendix 8.4)

Whilst the result of the Mann-Whitney test is .11, we feel there is a case for taking note of this result as a number of tests showed the pattern of the Outsider coming from an unrelated industry often moving more rapidly than those from related and the same industries. In particular, the distinction between Outsiders from unrelated industries and those from related industries was most marked in the area of financial changes (significant at the .03 level)[15] and in the area of human resource issues (significant at the .06 level)[16].

Whilst we agree with Gabarro that for his measures, Industry Insiders move more rapidly than Industry Outsiders, we feel this conceals important variations. In particular, the Outsider coming from unrelated industry appears to move more rapidly than Outsiders from related and the same industries and this difference was significant for changes in the finance and human resources area.

8.4.4 Explanations for differences in timing between Organisational Insiders/Outsiders

Reasons for Organisational Insiders starting changes more rapidly than Organisational Outsiders are that the former are far more familiar with their companies whereas the latter need time to build a picture. In the words of

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[15] Putting financial controls in place, adopting parent's financial reporting system, making structural changes

[16] Changing performance appraisal schemes, introducing employee incentive schemes, implementing management development programmes. Top team was perceived as more action oriented and injecting new values.

Outsider, Derby, managing director of an acquisition in the medical sector, *'as a newcomer, you have the disadvantage of not quite knowing how that bit works'*. Finance director and Outsider, Keaton, of a medium sized acquisition in food manufacturing, says, *'we broadly knew what to do but not enough to go in there and do it on day one'*. Indeed in some cases the Outsider was not informed of his new appointment until a day or so before the acquisition happened! This may be born out by the clear difference in speed in terms of changing internal operations. Several Outsiders also echoed the sentiment of managing director and Outsider, Lambert, *'we went into the acquisition with an open mind'*.

Insiders were also able to start upon change more quickly as they had plans for the changes well before the acquisition was finalised. In one instance a CEO wanted to remove the finance director as he was perceived to be poor. However as a substantial shareholder he was difficult to remove. This situation altered with a change in control. In speaking of the acquisition of his precision engineering company, managing director and Insider, Andrews, said *'it helps to be able to pin redundancy decisions upon the acquiring company's personnel department in Head Office'*. There is also an argument that the Organisational Insider does not take his eye off the commercial football to the same extent as an Outsider who has to learn about the business. On this basis the Organisational Insider may be more responsive to changes in the market. There is also the issue that negotiating a deal does absorb a great deal of senior management time so that the retained Insider often feels once the deal is completed that he has to get back into the saddle. *'The business had suffered*

from me being out of involvement (whilst) I tried to sell it. I had to get re-involved. Because I had more time to spend on the business I was able to identify what needed doing next and to drive it forward, which I had not sufficient time to do in the past' (Andrews).

Finally the Organisational Insider already has a working network, such as observed by Kotter (1982) as vital for implementing agendas, which is a mechanism for bringing about change. The Organisational Outsider needs time to construct such a system. Although the next quotation is more about which managers to remove or keep, it gives a flavour of the in-built delay in action as well as the need to create some sort of interface. Finance director and Outsider, Keaton, speaking of their acquisition in the food manufacturing sector, remarked, *'we need to spend five months establishing exactly who the right people are. We know broadly the structure that we want, but lets create some interface between the organisations that allows us to start the planning process'*.

8.4.5 Insiders / Outsiders and the impact of change

Whilst discussing why new executives made the changes they did and trying to uncover the reasons for the order in which change was carried out, a number of Outsiders suggested that they chose changes which had a high impact and were,

in the words of Insider, Heath, chief executive of an acquired professional services business, *'easier to put in place'*. In Chapter seven we saw that there was some evidence to support this observation in the case of Outsiders with regard to the areas of finance, marketing and human resources and we might reasonably expect them to start higher impact changes earlier than those with less impact. Insiders on the other hand are unlikely to think in those terms and so we would not expect such an association.

To see whether there was any association between the timing of the changes made and their impact, we examined the rankings of all change items against the rankings of their timings by Organisational Insider / Outsider for acquisitions where two to three years had elapsed. Using Kendall's rank order correlation and correcting for ties (Cohen & Holliday, 1982: 158-161) we ranked changes by impact and timing for both Outsiders and Insiders. For both Insiders and Outsiders we found low correlations[17] between the impact of the changes made and timing. This is insufficient to say Outsiders prioritise change in terms of impact.

However when we examine the ease with which changes occur, we find that both Insiders and Outsiders show associations between the timing of change and the ease with which changes are made. Insiders showed a 0.623 correlation between ease of change and timing whereas Outsiders showed a 0.649

[17] 0.255 and 0.342 respectively

correlation. Whilst these are just modest correlations it would seem that in the context of the timing of post-acquisitions change, ease of change is more of a priority than impact of change. This could well be bound up in the issues of 'being seen to be doing something' and also 'expectations of change'.

In the next section we shall turn to the timing of changes by acquisition type. We should bear in mind the general observations that Organisational Insiders make changes more rapidly than Organisational Outsiders. Insiders activity then reduces quickly. Outsiders however may initiate changes more slowly than Insiders but see much higher levels of change starts later in the post-acquisition period.

8.5 The pattern of change amongst acquisition types

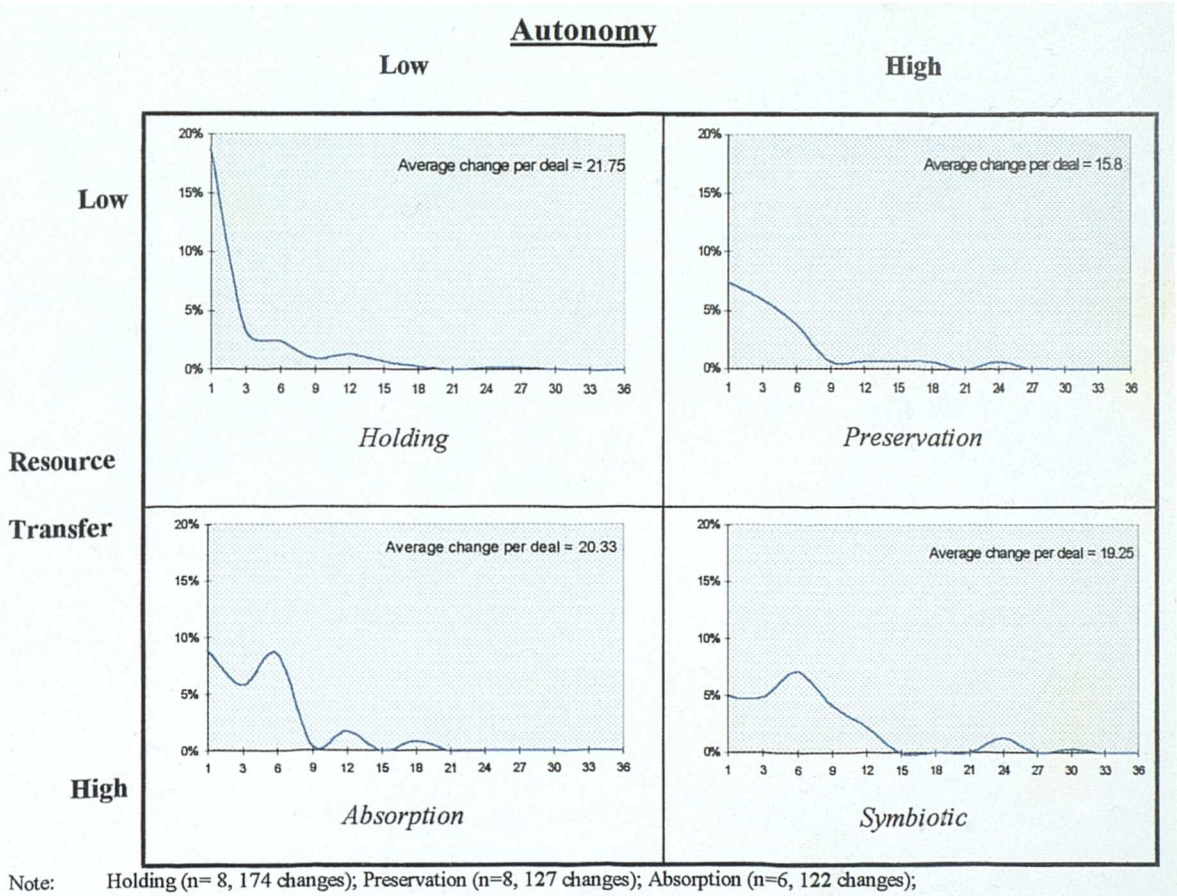
Chapter five showed significant differences between acquisition types based upon the volume and nature of changes made. In this section we shall examine the different patterns of change over time by acquisition type. First we shall look for a hierarchy amongst acquisition types based upon the speed with which changes are initiated and secondly characterise the patterns of change for each acquisition type.

8.5.1 Comparing speed of change

Hypothesis fifteen suggested that there would be an order amongst acquisition types based upon the speed with which change started. We suggested that higher

resource transfer and lower autonomy would be associated with more rapid change and so the likely order for speed of change would be Absorption acquisitions followed by Holding, Symbiotic and then Preservation acquisitions. However, we established earlier in this Chapter, that Organisational Insiders initiate changes more rapidly than Organisational Outsiders. As we can see from figure 8.9, the hierarchy of change reflects the executive type with changes occurring more rapidly in Holding followed by Preservation, Absorption and Symbiotic acquisitions[18].

Figure 8.9 Timing and volume of change by acquisition type[19] (12 mths +)



Note: Holding (n= 8, 174 changes); Preservation (n=8, 127 changes); Absorption (n=6, 122 changes); Symbiotic (n=4, 77 changes)

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[18] This hierarchy receives some support from a Kruskal -Wallis 1-Way ANOVA for differences in the average timing of change between our four acquisition types. The result was significant at the .06 level (see Appendix 8.5)

[19] Further distributions were created for each acquisition type with more elapsed time, but showed little variation in pattern.

8.5.2 Characterising patterns of change by acquisition type

Figure 8.9 shows clear differences in the patterns of change by acquisition type and we will characterise these in this section. We have sought to uncover sequences of change for each acquisition type, in terms of functional and cross-functional categories, but due to small numbers, most of this analysis is insufficiently robust for reporting . We therefore downplay its significance and merely offer a few observations where there is support from our interviewees.

8.5.2.1 Holding acquisitions

Chapter five characterised Holding acquisitions as turnarounds with very high volumes of change. Figure 8.9 shows most of this activity to be concentrated at the outset of the post-acquisition period with 62% of all change being initiated within the first month. We examined the data for a sequence of functional or cross functional change but were unable to find one as change was compressed into a tight time frame. The rapidity and focus of change is well illustrated by our cameo of Stanton, who remarked that *'I had been thinking about it for months and I had got a blueprint already in place and I just pressed the button'*. The focus upon preventing further organisational deterioration is described by Taylor, managing director of an industrial land usage firm, as *'stabilising the workforce, stopping capital expenditure, stopping financial misuse, putting immediate controls on the finances and putting in place the parent required financial systems'*.

Speed of action is clearly vital to reverse their poor financial health and can be across the board. In the words of Nelson, chief executive of an acquired financial services company, *'have a clear idea and do it. You'll get lots wrong, but that doesn't actually matter. People want clarity'.*

Following the burst of immediate change, executives commented on a loss of strategic direction and momentum. This is illustrated by figure 8.9 which shows a marked subsidence in change towards the third month, plateau at six months and then a further decline towards the end of the year. Thereafter there is only minor activity. As Stanton, of our cameo in Chapter five, remarked, *'we were left in a complete vacuum. All we did was carry on'.*

Holding acquisitions then can be characterised as experiencing intense focused change, almost 'kill or cure' in nature, followed by a sense of operating in a void.

8.5.2.2 Preservation acquisitions

Chapter five characterised Preservation acquisitions as experiencing relatively low levels of change. Whilst the term Preservation suggests standing still we found that these acquisitions saw their altered circumstances as an opportunity for change.

Figure 8.9 shows most change occurs at the outset of the acquisition. For those acquisitions over one year old, 37% of all new changes occurred in the first month with the level declining to a nadir by the ninth month of the first year. New changes then continue at a low but sustained rate into the second year and beyond.

Change in Preservation acquisitions then seems to be quite rapid at the outset. Insiders dominated these acquisitions and, as commented in section 8.4, are associated with more rapid change. Our interviewees characterised this as having been away from their business whilst negotiating the deal. In the words of Crossman, Chief Executive of an acquired transport company, *'it take's your eye off the ball'*. The flurry of activity is getting back into the saddle. As Andrews, managing director of an acquired precision engineering business, says, *'I had to get re-involved'*. More than one executive said, *'I freely admit we did them (changes) as quickly as we could as we knew what had to be done and I knew I could blame them on the (new parent)'*.

There is a cross functional sequence in Preservation acquisitions of financial changes followed by management adjustments and then operational changes. As Blackman, managing director of an acquired package manufacturing business said, *'we started having to get into their budgeting sequence and we had to change all our accounting methods. We had to do that more or less straight away'*. Management adjustments were also perceived as vital. Eccleston, a director in charge of acquiring a large communications acquisition, said, *'It was*

critical to us that all key managers knew exactly what we were doing, otherwise you end up losing staff; morale will plummet'.

Investment in operations is a later change which has to be earned. In the words of Crossman, managing director of an acquired transport business, '*(the parent) recognises that (they're) going to have to invest but in order to justify that investment we have to have the profitability to justify it'.*

Apart from the observation that re-establishing control happens rapidly and operational changes come later, the level of change and its timing becomes attenuated and it is difficult to discern a pattern. The reason is that Preservation acquisitions are far more focused upon their own markets than 'accommodating' the new parent, against whom they often defend their business. In many cases, direction from the new parent, other than in terms of financial reporting, was not forthcoming and led to complaints. Consequently the changes made were more specific to each business rather than generic to Preservation acquisitions.

One might also argue that the long tail to the changes is a reflection of the difficulties faced in changing a successful company in a way suggested by the parent but which might be perceived to be harmful. Derby, managing director of an acquired medical company, and a rare Outsider in this context, shows how changes in Preservation acquisitions might be initiated well after the acquisition date. *'Consultants have got to be in the top one percent of intelligence - they're deeply suspicious - ultra conservative - it took them twenty years to accept*

penicillin. They're powerful and can wreak change. I had to work very slowly and very sensitively'.

8.5.2.3 Absorption acquisitions

Chapter five showed that Absorption acquisitions are characterised by considerable and wide sweeping change. Figure 8.9 shows that they are characterised by a burst of change at the outset, followed by a lull in activity during which there is an important planning phase, and then a wave of intense change. Thereafter there are clear diminishing subsequent peaks of activity at the one year mark and after eighteen months.

In explaining the broad picture of change, Keaton, in our cameo of an acquired food manufacturing business, says, *'we had six months of causing difficulties, six months of realising them and six months of putting them right'.* Commenting upon the wave of change at the one year mark, Martin, a director of the new parent of a large communications company says, *'At the end of the first year there was a taking stock of how well we had done, and a further rationalisation which was not in the plan and was completed in a further six months'.* For Lambert, managing director of an acquired utilities company, these subsequent waves were viewed as follows, *'after twelve months is a period of refinement and getting things done'.*

With such marked waves, Gabarro's (1987) work lends explanation and insight. The immediate wave can be said to be taking hold of the acquired company followed by an immersion stage or planning stage. When this is complete, there is a major restructuring phase around six months. A consolidation phase then begins with a further subsidiary wave of change following near the year end. Gabarro (1987) suggests a refinement stage of little change whereas we see a further wave of change at eighteen months followed by refinement. Gabarro's (1987) model appears to have some merit in the Absorption acquisition context although our phases seem to be more closely grouped and perhaps more marked.

The taking charge activities in the first burst of change focus on communications, imposing financial controls, senior executive change and the removal of corporate identity. Whilst this is taking place, the planning and consultation process is set up.

The importance of communications is vital to allow the acquired company to continue to operate effectively whilst task forces investigate areas for integration. Effective communications are needed to *prevent the rumour mill from operating and the loss of the best staff.* The fears of employees are well described by Outsider James, managing director of a professional services acquisition, *'after every deal I have always met the staff and the things they always ask are, 'what's the name of the company going to be?, when are you changing the name of the company?, are you changing my commission plan?, are you changing my remuneration package?, and will I still have the same*

manager? - their world is in turmoil, they're all down to the bottom layer of Maslow, 'how do I feed my family?'. James's advice is *'don't bullshit them. Don't commit to things you are not sure about. Be honest and open and be available'.* The other side of the coin is as Keaton, finance director of an acquired food manufacturing business, remarks, *'we didn't want people thinking, 'well I'm going to be booted out' and then ruin our relationships with a couple of large supermarkets'.* The high importance given to communications is well illustrated by Heath, chief executive of a professional services firm acquisition, *'I visited every single office of both companies throughout this country in a three day period and spoke to as many staff as they could get in. As soon as it was done, I got to all the overseas offices as well. It was a major exercise'.*

Imposing financial controls is seen as the way to take control, establish a common language, and seek out duplicate costs. In Absorption acquisitions, finance teams are the 'shock troops' of acquisition. As Martin, in charge of a very large acquisition in the communications sector, says, *'our accounting personnel went in there straight away'.*

Whilst the initial burst of change subsides, considerable effort is put into planning the integration using joint task forces. This lull is explained by Keaton, Outsider and finance director, who says, *'we didn't know enough to go in there day one and suddenly do things'.* Outsider Lambert, managing director of an acquired utility company describes a planning phase of two months, *'in about*

six to eight weeks we had blitzed it and worked out how we were going to operate the new district'.

Following the completion of the plan, there was broad change on many fronts, executed at speed. As Martin says, *'once the plans were complete, we incurred a redundancy bill and the wrath of lots of people and got on and did it'.* Subsequent waves of activity tended to be remedial in nature resulting from the major planned restructuring wave of change.

8.5.2.4 Symbiotic acquisitions

Chapter five showed how Symbiotic acquisitions are difficult to manage and not necessarily characterised by a great deal of change. The emphasis was one of building through investment and mutual development and we suggest that this can be a more time consuming process than the acquisition styles discussed above.

Figure 8.9 shows the timing of changes in Symbiotic acquisitions[20]. These are clearly very different to other acquisitions with a relatively low level of activity at the outset of the post-acquisition phase. In the words of Vaughan, managing director of a large acquisition in the food manufacturing sector, *'we did say at the outset that we were not going to come in and make wholesale changes'.* He

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[20] With just three 'pure' Symbiotic cases we have included six borderline cases. After removing cases under one year we have four cases.

explained this by saying *'there was a reluctance to change too much in what was a successful operation'* and he didn't want it unsettled. Vaughan makes the contrast with other acquisition styles particularly well when describing an exchange with the then incumbent chief executive who said shortly after acquisition, *' well I suppose you've got a blueprint and within a week everything will have changed?'*. Vaughan said, *'We found this bizarre because we said, 'no - we're not as presumptuous as to act like that because we don't know your company', and he said, 'well I can tell you, if we had acquired you*[21]*, within a week we'd know exactly what we'd be doing and it would have all changed', and we thought, there are two ways of doing it and its not the way we're going to do it'*.

The issue of not wanting to disrupt the acquired company is clearly of paramount concern in this acquisition. As a result, in the words of Vaughan, *' changes went further down our calendar based on that judgement'*. Figure 8.9 shows that for Symbiotic acquisitions, the emphasis of intended change is more delayed than for other acquisition types. There is a marked peak at the one year point followed by a slump and then a resurgence towards the end of the second year.

This pattern of the timing of change seems to fit with the notion that change here is rather more incremental than in other acquisition types. There is no great

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[21] Its worth noting that two years earlier, the acquired company did have aspirations to acquire the new parent.

wall of change but rather an iterative form of interaction. As Vaughan remarked, *'we were alive to the dynamics of the situation. We actually changed a number of things as we went along'. 'Rather than great directional changes, it was something that we felt could be done in the first year that we put off until the second year'*. Vaughan also suggest that the scale of change was also affected in the same way. This interaction meant longer time scales than for other acquisitions and *'those changes are still in progress (over four years on)'*. In addition the iterative nature of the change process allowed changes to be handled sequentially.

Vaughan has still has further changes in mind but feels that through the iterative process, *'the future will not be presented as changes because we have two different companies; I think they will just be taken as changes within the group'*.

8.6 Integrating acquisition types

In terms of volume and speed of change we have seen that the four acquisition styles possess distinct differences. Holding acquisitions see very rapid and high levels of change, as befits a turnaround situation, which quickly die away. Absorption acquisitions also see high levels of change but there is delay caused by the need to plan. There is then a major wave followed by remedial after-shocks. Preservation acquisitions see immediate but low levels of change which

then rumble on, whereas Symbiotic acquisitions also with lower levels of change, see a delayed sequence over a longer time frame.

A way of summarising these differences is by juxtaposing volume by timing of change from which we can characterise each acquisition style.

Figure 8.10 Characterising change by acquisition type

Timing of start of change	Volume of change: High	Volume of change: Low	
Immediate	*Holding* **Focused change**	*Preservation* **Piecemeal change**	Doing things better
Delayed	*Absorption* **Complex change**	*Symbiotic* **Sequential change**	Doing different things

Preservation acquisitions see low levels of change which are piecemeal in nature and contained within the acquired company. The changes are aimed at improving what is already being done and there is an aversion to doing things differently. In the eyes of the managing executives, the changes are not perceived as changes at all, but simply differences in the way things are done. Indeed, most of our interviewees said that the new parent did not specify any

direction and so they continued to find their own way, reacting to changes in their markets.

Holding acquisitions are also about doing the same things better and acting rapidly, although the scale of change is substantial. Time is short, requiring concerted action, but there is a limit to resources which severely constrains the scope of action in the acquired company. Often held in hermetic isolation, to avoid contaminating the parent group, Holding acquisitions focus upon a number of key changes. These are acted upon very rapidly, in an attempt to restore the business to good health and also win the confidence of the new parent.

Absorption acquisitions also see high levels of change, but these are not carried out immediately. There are substantial interdependencies between the organisations to be managed and this requires a complex approach necessitating careful planning and the use of task forces to accommodate the higher information needs. Everything must be changed rapidly but all the parts affect each other. Here the emphasis can be said to be doing things differently and there is a mutual interaction between the newly acquired company and its parent. On completion of an Absorption acquisition, both organisations will have changed, unlike the Holding or Preservation acquisitions, which will be still clearly identifiable.

Symbiotic acquisitions also see longer time scales for change and it is important to consider dependencies between and within several components. These connections are explicitly recognised and managed sequentially. Change therefore focuses upon specific components in turn. There is an explicit interaction between the new parent and the acquired company in carrying out changes which occur in both organisations. Although these changes take place over a long period of time, the outcome is for fundamental change in both organisations.

In summary, we can see four distinct managerial challenges in these acquisition styles. These challenges revolve around the speed with which change should take place, the amount of change needed, and the level of interaction with the new parent company.

8.6.1 Revolutionary or evolutionary change

We have argued above that there are four distinct types of post-acquisition change although in chapter two of the thesis we observed that the organisational behaviour school tends to regard change as either revolutionary or evolutionary (Romanelli and Tushman, 1994). This dichotomy seems well suited to our horizontal axis in figure 8.10. Romanelli and Tushman's (1994) discussion of punctuated equilibrium examines twenty five minicomputer firms over a three year period, and depicts revolutionary change as disruptive of established

activity patterns. This seems consistent with Holding acquisitions as turnarounds, where there needs to be fundamental change to ensure the survival of the company, and Absorption acquisitions where the acquired company is dismembered and swallowed by the new parent. In particular Romanelli and Tushman (1994: 1144) identify poor performance and the succession of chief executives as key forces to stimulate fundamental organisational transformation We would agree that Holding and Absorption acquisitions frequently exhibit poor performance and the latter often change their chief executives. However it would seem that Holding acquisitions tend not to change their chief executives. Romanelli and Tushman (1994) also suggest that organisations had overwhelmingly accomplished fundamental transformations within two years Although we have focused upon the start of changes, figure 8.9 shows clearly that the vast majority of new changes had been initiated in Holding and Absorption acquisition well before the two year mark.

Evolutionary change on the other hand is characterised by a series of small changes which do not produce revolutionary change. In particular managers are said to resist change as they try to maintain complex networks (Romanelli and Tushman, 1994). This description seems to fit well with Preservation acquisitions where there are relatively low levels of change and managing executives who are clearly resisting, successfully, parental interference in their businesses. Symbiotic acquisitions also see relatively low levels of change and there is a clear wish for an incremental approach. The interesting contradiction is that this approach of small changes over a longer period, according to

Tushman and Romanelli (1994: 1159), will not lead to fundamental transformation and they cite other studies by Miller and Friesen (1984) and Virany, Tushman and Romanelli (1992) which argue that 'when transformation occurs, revolutionary change confers a performance benefit' (Romanelli and Tushman, 1994: 1161). This raises the question of whether Symbiotic acquisitions can create value and from the evidence we have presented above, this would seem to be the case.

Our characterisations of four post-acquisition types suggests strongly that the change may not easily be reduced to just one dimension of revolutionary and evolutionary change. We can see that using two dimensions of change, volume and timing, leads to quite different patterns of change for our four acquisition types. In addition, it would appear that there is a contradiction between Tushman and Romanelli's (1994) assertion that small changes over a long period will not lead to fundamental transformation, whereas Symbiotic acquisitions aim to create value through gradual changes over a long period which will result in fundamental transformation, and their assertion that revolutionary changes will lead to fundamental transformation whereas Holding acquisitions see substantial change but essentially are doing the same things better.

8.7 Conclusion

We opened the Chapter by asking whether managers should initiate change in a newly acquired company in a cautious, piecemeal way or in a more 'gung-ho' manner. Prior studies in the area have a curiously static quality or, at best, are very vague on this issue. By drawing upon the work of Gabarro (1987), we were able to find a mechanism for examining the speed of change in acquisitions and, in conjunction with Haspeslagh and Jemison's (1991) work, were able to show that different acquisition styles exhibit very different profiles in terms of the speed with which change is initiated. Bringing this together with the results of Chapter five, which show a marked variation in the volume of change by acquisition type, we can see that the work of taking charge, for each acquisition type, is substantially different. The initial dichotomy therefore, of making changes quickly or slowly, or indeed, making many changes or few, can be resolved by the contingency framework which shows that each element in these dichotomies is appropriate in different circumstances.

We also believe that, just in the same way that the picture of change as fast or slow, or many changes or few, is too simple for the post-acquisition phase, the prevailing view in the organisational behaviour school, that change is either revolutionary or evolutionary, misses important nuances. As we show in figure 8.10, within the revolutionary and evolutionary categories there can be quite different outcomes so that the 'severity' of the change does not determine the extent to which there is fundamental transformation.

9. Conclusion

9.1 Introduction

Many corporate acquisitions fail to live up to their expectations, and there is dissatisfaction with the explanatory power of pre-acquisition variables. Researchers now focus upon the post-acquisition phase as the key to making acquisitions work (Haspeslagh and Jemison, 1991, Deiser, 1994). This resonates with developments in the Strategic Management literature, where attention is now directed at implementation issues as major moderators of organisational performance. Currently however, the post-acquisition literature is largely fragmented, partial in nature and lacking in coherence.

9.2 Aims of the thesis

This thesis focuses upon the post-acquisition phase and, in so doing, is consistent with the current trend in Strategic Management. It sets out to contribute to our understanding of this period by providing a systematic examination of post-acquisition change in the United Kingdom. This fills a gap in the literature as there are no generic studies to date, giving a comprehensive coverage of actual post-acquisition changes across a population of acquisitions.

In particular, the thesis focuses upon which changes took place in acquired companies after acquisition, the magnitude of those changes and their timing. This enabled us to establish whether a contingency approach to post-acquisition management could be supported and, from this position, to extend this typology by detailed characterisation of each acquisition type. We also anticipated that this would contribute to the debate upon whether change needs to occur slowly, as advocated by Processualists, or whether there are circumstances where change takes place rapidly.

Part of the characterisation of each acquisition style involved looking at the way in which different types of Managing Executive took charge of acquisitions for, in times of crises, their role becomes critical. Based upon a substantial literature on the differences between Insiders and Outsiders, we expected to find significant differences in the ways different executive types handled post-acquisition change. Consequently we also expected to find clear associations between executive types and particular acquisition styles. From these observations we aimed to form a view upon which type of executive would be more successful in a particular acquisition context.

In terms of the different types of acquisition, there is an implicit view in Haspeslagh and Jemison's (1991) study, that acquisitions experiencing high levels of resource transfer will be more successful than acquisitions that stand alone. For this reason they concentrate upon certain acquisition types at the expense of others. Their view stems from the Resource-Based view of the firm,

the dominant paradigm in Strategic Management in the 1990s (Collis and Montgomery, 1995, McKiernan, 1996), which suggests that value can only be created by the transfer of resources between firms, to create new complex assets or build upon those already present, so enhancing competitive advantage. This thesis examined the empirical data for evidence to support the theory of a clear link between resource transfer and perceptions of success.

9.3 Method and data

The method employed in the thesis can be described as hybrid. Its virtues were providing a cross-sectional view of the acquisition population, a comprehensive perspective hitherto lacking in the post-acquisition literature, and adding depth and richness to survey results by using key respondent interviews. We surveyed the population of corporate acquisitions in the UK between March 1991 - April 1994 and achieved a good response rate of 30%. This data enabled us to categorise acquisitions and, by using change variables drawn from related literatures, allowed us to test the soundness of the classification. As a coherent picture of change patterns emerged for each acquisition type, we carried out twenty in-depth interviews with key respondents, to gather explanation and further nuance for these findings.

9.4 Results

The following table summarise the propositions and their results.

Table 9.1 Thesis propositions and results

No.	Proposition	Results	Page(s)
1	Compared with Haspeslagh and Jemison's Absorption and Symbiotic integration styles, Preservation Acquisitions will account for a significant number of acquisitions in the UK.	Preservation acquisitions accounted for 54.5% of pure replies (49% if neutral cases randomly assigned). This was higher than the expected value although only 0.7 of the chi squared value	4-207-208
2	Compared with Haspeslagh and Jemison's Absorption, Symbiotic and Preservation styles, Holding Acquisitions will represent a significant portion of take-over activity in the UK.	Holding acquisitions accounted for 20.5% of pure replies (26% if neutral cases randomly assigned). This was lower than the expected value contributing 1.1 to the chi squared value	4-207, 209
3	Absorption and Symbiotic acquisitions will not be perceived to be significantly more successful than acquisitions experiencing low capability transfer.	There was no significant difference in perceptions of success between acquisition types based upon capability transfer.	4-216
4	Knowledge transfer will be associated with perceptions of acquisition success	There were significant associations between knowledge transfer and our four measures of success.	4-217-219
5	There will be an order to Haspeslagh and Jemison's acquisition types, in terms of perceived success, from Symbiotic as most successful, through Absorption, Preservation to Holding.	There was no hierarchy of success between acquisition types	4-220-222
6	The level of aggregate change will increase from Preservation acquisitions, through Holding, Symbiotic to Absorption acquisitions.	There was a significant difference between acquisition types at the .008 level. This was largely explained by a negative correlation with autonomy: r=-.39, sig. .001	5-251

Table 9.1 (contd) Thesis propositions and results

No.	Proposition	Results	Page(s)
7	Preservation acquisitions will retain more senior executives than Absorption acquisitions	82% of Preservation acquisitions retained their managing executive whereas only 29% were retained in Absorption acquisitions : significant at the .05 level. Changes amongst marketers and finance executives showed no significant difference between these acquisition types.	5-255-257
8	Changes in communication will be positively associated with the level of change in the acquired company	Changes in communications were positively associated with the level of change in the acquired company: significant at the .001 level.	5-299 footnote 39
10	Absorption and Symbiotic acquisitions will exhibit more change in information systems/information technology than Holding and Preservation acquisitions.	Changes in information systems and information technology were positively associated with resource transfer: significant at the .03 level	5-300
11	Absorption and Symbiotic acquisitions will exhibit more change in personnel policies than Holding and Preservation acquisitions.	Change in personnel policies on appraisals was positively associated with resource transfer: significant at the .02 level	5-300
12	Different acquisition types will exhibit significant differences in changes to compensation and benefits.	Change in personnel policies on pay and conditions was positively associated with resource transfer: significant at the .05 level.	5-300
13	Organisational Outsiders will make more changes than Organisational Insiders	Organisational Outsiders make more changes than Organisational Insiders: significant at the .0002 level.	7-335-336
14	The Outsider / Insider distinction will be more pronounced, in terms of the amount of change, for an organisational rather than an industry definition.	The organisational distinction of Insider / Outsider is more apparent than the industry distinction.	7-340-341
15	The speed with which change is started will be most rapid in Absorption acquisitions, then Holding, Symbiotic and finally Preservation acquisitions.	Changes are most rapid in Holding, then Preservation, Absorption and Symbiotic acquisitions. Significant at the .06 level.	8-394 footnote 18

Table 9.1 (contd) Thesis propositions and results

No.	Proposition	Results	Page(s)
16	Patterns of change in the post-acquisition phase will be similar to those for taking charge	There are waves of change in acquisitions but the timing and magnitude is different to taking charge	8-376-380
17	The speed of taking charge of an acquisition is greater than for taking charge of subsidiary companies	Taking charge of an acquisition appears to be more rapid than for taking charge of subsidiary companies.	8-376-380

Note: Proposition 9, that informal communications will be positively associated with change in acquired companies, was suggested as an interesting proposition but not dealt with on the grounds of being peripheral to the thesis.

This thesis shows that there is strong evidence to support a contingency framework of post-acquisition styles. By using change variables, we were able to examine the axes of the framework as well as test for differences between the individual acquisition styles.

In terms of the axes of the contingency framework, we found a clear negative correlation between autonomy and aggregate change, and a positive, although less strong association with resource transfer[1]. From the way in which change is associated with the axes of the contingency framework, we might infer that autonomy is linked to imposed change from head office whereas resource transfer reflects implied change.

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[1] It is clear that the general recommendations in the acquisition literature about the use of communications in relation to the level of change is appropriate, as shown in proposition eight with communications being negatively associated with autonomy and positively with resource transfer. Examples of other changes positively associated with the transfer of resources are shown by propositions ten through twelve.

The axes of the contingency matrix affected change in a broadly consistent manner, and were orthogonal over the full scales. However appendix 7.4 showed that whilst autonomy behaved consistently where there was low resource transfer, there were a few anomalies with medium levels of resource transfer. Whilst these anomalies were insufficient to make a case for additional acquisition types, it is worth observing that autonomy would appear to be a rather more complex dimension than is often acknowledged and would repay further research attention.

Examining the Haspeslagh and Jemison's (1991) acquisition styles, in proposition six, we found that there was a significant difference between them in terms of aggregate change. At a greater level of detail, using seven constructs for change from the Sharpbenders' (Grinyer, Mayes and McKiernan, 1988) study, a hierarchy was evident with Holding acquisitions showing the most change, followed by Absorption, Symbiotic and finally Preservation.

Having satisfied ourselves that the contingency framework (Haspeslagh and Jemison 1991) was robust, we broadly agreed with Haspeslagh and Jemison's (1991) observations regarding the facilitating and inhibiting conditions present in Preservation, Absorption and Symbiotic acquisitions. However, we wanted to extend their work by looking at actual changes in each acquisition type as well as provide detail on their ignored category of Holding acquisitions. In this regard, we have been able to provide considerably more depth for all four

acquisition types, in quantitative terms, and been able to draw upon our interviews to provide explanations and nuances for changes which took place.

We also examined the speed and pattern with which change started in the post-acquisition phase and looked for distinct waves of activity such as those observed by Gabarro's (1991) work on executives taking charge of American subsidiary companies. Through proposition 17 we found that taking charge of an acquisition appeared to occur more rapidly than for Gabarro's (1991) executives, and, whilst we also observed waves of change, the timing and magnitude were strikingly different. We also found, through proposition 15 that there were significant differences between the four acquisition types in terms of the speed with which change started. These findings serve to extend Gabarro's work into the acquisition arena as well as providing further evidence for the distinctiveness of each of the four acquisition types.

A dominant view in the Organisational Behaviour literature is that change can be dichotomised into revolutionary and evolutionary change (Romanelli and Tushman, 1994). Our four acquisition types could also be dichotomised with Holding and Absorption acquisitions as crises associated with revolutionary, discontinuous change, whilst Preservation and Symbiotic acquisitions saw more gradual, evolutionary, incremental change. However, this did not seem to us to capture fully important differences within those categories. Holding acquisitions experienced turnaround but remained self-contained companies, whereas Absorption acquisitions were dismembered and completely subsumed within the

acquirer. Clearly both experienced a crisis, but in one case the result was doing the same thing but more efficiently or better, whilst in the other case, the acquired company was completely changed and so doing different things. On the other side of the dichotomy, Preservation acquisitions experience piecemeal incremental change but with the formula remaining unaltered, whereas Symbiotic acquisitions saw long term investment leading to substantial change. In both cases, evolutionary change, but the former does not truly evolve, whereas the latter sees transformation and becomes more than the sum of the parts. These important differences are not adequately reflected in the simple duality of evolutionary and revolutionary change.

The Managing Executive has a key role in the post-acquisition phase. However there is disagreement over whether the incumbent should stay or go. We found through proposition seven, that there were significant differences between the acquisition styles and the retention or removal of the managing executives, although it would seem that the picture for other top executives is rather more complex.

By adopting an Insider / Outsider distinction for managing executives, we were able to extend a well established stream of literature into the post-acquisition arena. Our data provided evidence that the distinction, in terms of volume of post-acquisition change, was robust at the organisational level, proposition 13, with organisational Insiders making fewer changes than organisational Outsiders.

We also examined Gabarro's (1987) observation that Industry Insiders made more changes than Industry Outsiders. Upon examining his distinction, proposition 14, we concluded that, with his variables, we could agree with his findings. However we felt these variables were partial in nature. By using a more comprehensive range of change items, we did not find a significant difference between Insiders and Outsiders at the industry level.

Although in general terms we found significant differences between Organisational Insider / Outsiders, in terms of the volumes of change associated with each, we also found evidence of differences between them in terms of types of changes. Outsiders made changes which had a high perceived impact and were relatively easy to do. Their approach to change remained remarkably similar across all acquisition types. Clearly they were focused upon the business of taking charge and making relatively easy, high impact changes to match external stakeholder expectations.

In contrast, Insiders were associated with a much greater variation in the levels and nature of change. They clearly had a broader range of possibilities open to them, due to their knowledge of the business, their greater flexibility in resisting change or, carrying out the most severe alterations when necessary. Insiders were less associated with easy and high impact changes and more associated with difficult operational changes.

With these differences established between organisational Insiders and Outsiders we were able to find strong associations between each type and the post-acquisition styles of the contingency matrix.

In terms of the success of each acquisition type, we came to some interesting conclusions. The contingency framework was based upon the Resource-Based view of the firm which suggested successful acquisitions would tend to be those which exhibited high resource transfer. On this basis we expected to find the majority of acquisitions to be ''value creating'' and expected them to be significantly more successful than stand alone, or ''value capture'' purchases.

Our empirical evidence, however, contradicted this picture. In terms of the distribution of acquisitions, we suggest Haspeslagh and Jemison's (1991) focus upon 'value creating' acquisitions is a distortion of acquisition activity, as in the UK we found 'value capture' acquisitions to be dominant (proposition 1). In particular the Holding style, which they had dismissed, was an important acquisition type (proposition 2). We also found Symbiotic acquisitions, upon which Haspeslagh and Jemison (1991) focused their attention, to be under-represented.

When we tested the typology against several perceptual measures of success, proposition 5, we found no significant differences. This suggests that non-synergistic acquisitions can be as successful as synergistic ones, proposition 3,

which accords with a recent study by Anslinger and Copeland (1996). This evidence is clearly contrary to the Resource-Based argument.

Whilst we could not find performance differences between acquisition types, by resource transfer, we did find a correlation in testing proposition 4, between the transfer of knowledge / information and some perceptions of success. This suggests, that whilst some elements of resource transfer may be linked to performance, there is a cost associated with higher resource transfer which can erode the value of the deal. On this basis one might argue that higher potential gains are linked to greater complexity and risk. It is conceivable that this observation can explain the low levels of recorded Symbiotic acquisitions either in terms of acquirers avoiding this style due to higher risk for uncertain gains, or because Managing Executives involved in such acquisitions are struggling with much more complex issues than their counter parts and have no time for filling in questionnaires. Either way, we can say that implementation remains a critical issue in realising full value in the post-acquisition phase. By appearing to disrupt the predicted relationship between resource transfer and value creation, we can observe that there is a clear gap between theory and practice. To close this gap, we now need to move from an organisational focus to a managerial one, to consider how strategy works in practice.

9.5 Limitations of the research

The thesis attempts to give a representative picture of post-acquisition change for the acquisition population in the UK. Our findings should be read with a number of methodological reservations borne in mind.

The survey is limited in terms of response rate which, whilst good for the field, still leaves room for non-response bias. There is also an issue of focusing upon surviving acquisitions which may distort our findings for acquisitions in general. As we have concentrated upon acquisitions in a specific time period, between 1991 and 1994, we may not be examining a representative sample of all acquisition activity. We have also chosen to look at just acquisitions in the UK and this could mean a country bias.

Our survey has focused upon a key respondent which, although the Managing Executive view and perhaps appropriate for perceptions of success, is not a full reflection of the board of directors, and other employees, which may be valuable when examining change within the company.

Postal questionnaires present a number of difficulties. We cannot be sure that the Managing Executive filled in the questionnaire despite the evidence that our interviewees, who represented a substantial portion of questionnaire respondents had done so.

There may be an element of self selection as it is reasonable to expect Managing executives to be more willing to share their experiences where acquisitions have gone well[2] and the percentage of respondents citing successful acquisition was above the generally reported levels of acquisition success. There could also be some self selection[3] in that some executives stayed on and might be more likely to respond to a questionnaire than a new executive. By sending out questionnaires after two and a half years had elapsed we hoped to minimise this issue.

The postal questionnaire was sent out at one point in time whereas the acquisitions occurred over a range of years. This may mean a variety of contexts as well as having implications for differences in the recall quality of Managing Executives. In particular there are likely to be post-hoc rationalisations as well as some bolstering of self perception. Although we guarded against different time periods between questionnaire and acquisition dates, by selecting sub-samples for analysis, this was not always possible due to small numbers, and even with sub-samples the issue of time span is still present in reduced form.

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[2] The converse of this argument is that acquisitions that are in difficulty or are very complex are also more likely to absorb significant amounts of executive time and make them less receptive to filling out questionnaires. However, by allowing two and half years to elapse between questionnaire and acquisition, we hoped to minimise this issue.

[3] As well as survivor bias

The interviews help to mitigate some of the limitations above, but still suffer from being focused upon the key respondent, being at one point in time and being retrospective.

Although it was never a major intention to focus upon acquisition performance, a limitation of the research might be perceived to be a limited set of performance measures.

A further limitation has been the treatment of information from respondents selecting the mid-point on the autonomy axis of the contingency framework. In its pure form, this represents information loss. To compensate, efforts were made to overcome the problem where possible by uni-directional analysis across scales as well as the random assignment of borderline cases within the typology.

9.6 Suggestions for future research

This study of acquisition in the UK could be extended in several ways to add further substance to our findings. An improved longitudinal appreciation of post-acquisition change in our acquisitions would be achieved by re-releasing the survey to examine the issue of survivor bias. From this we could see whether those acquisitions that have now failed can be related to recorded changes.

The survey could be re-issued on a different set of acquisitions to see whether our findings are consistent across two time periods. The current survey was clearly within a downturn in acquisitions activity and the results could be different during a boom.

The survey could be extended to European and/or cross-border acquisitions to assess whether there are different national emphases upon acquisition styles and/or differences between domestic transactions and cross-border ones.

To explain the lack of support for the Resource-Based perspective, we could examine more closely the reasons why there appears to be a performance correlation between the transfer of knowledge and acquisition performance, and yet we could not find a similar relationship with resource transfer in general. This would allow us to concentrate upon the mechanism of resource transfer and the creation of complex assets in an acquisition context. It would seem there are significant difficulties in achieving these aims. In broad terms this may lead to an exploration of the gap between theory and practice. To make head way, we could draw upon the issue of strategy as practice (Whittington, 1996) to see how post-acquisition strategy 'evolves' through managerial levels. This form of enquiry would best be handled by a more longitudinal approach.

Acquisitions are an important part of corporate life. They are a key means of corporate renewal and transformation. The full significance of acquisitions in

this role, and their relative effectiveness, needs further comparative investigation with other forms of corporate regeneration.

For our population of acquisitions, there is substantial evidence to suggest that change occurs rapidly in the post-acquisition phase. Figure 7.1 shows that around 80% of changes made are started within the first six months of the post-acquisition phase. We can also sense from the interview data that there is an urgency in taking charge or re-establishing control. We are reminded of one of our quotations from a Hanson executive, that 'newness is a wasting asset'. The post-acquisition period would therefore seem to provide support for the revisionist perspective of Eccles (1993, 1994), that change does not need 'decades' to occur.

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Appendix for Chapter 3

Appendix 3.1 Questionnaire and covering letter

Warwick Business School,
University of Warwick,
Coventry
Tel. (01203) 524541

[date]

Dear [name],

Managing Acquisitions in the UK

I am pleased to inform you about a major research project at Warwick Business School which seeks to understand the different ways in which key executives manage and integrate acquisitions. Further information about the project and the principal researcher, Mr Duncan Angwin, is given in a note attached to this letter.

In essence, the aim of the research is to explore the background, experience and actions of the CEO/MD of the acquired company after it has been acquired. In this connection, your name has arisen as the relevant key executive and I would therefore be most grateful if you could spare some time to complete the attached questionnaire.

The number of key executives involved in managing acquisitions is relatively small and this means that your response is of great importance to the research and will receive close attention. Any information you give will be treated in the strictest confidence. The results of the survey will be published only in aggregate form and an advance copy will be sent to you once the analysis is complete.

If you are not the appropriate person for this questionnaire, I would be grateful if you would either pass this letter and enclosures on to the executive responsible, or let us know whom we should contact.

In case you have any problems, Mr Duncan Angwin will telephone you in the next few days to answer your queries. Thank you in advance for your assistance.

Yours sincerely,

Professor Sidney J. Gray

All information given in the questionnaire will be treated in strictest confidence

Managing acquisitions in the UK: Key executive survey

A. General information

1. What is your company / division name?.....

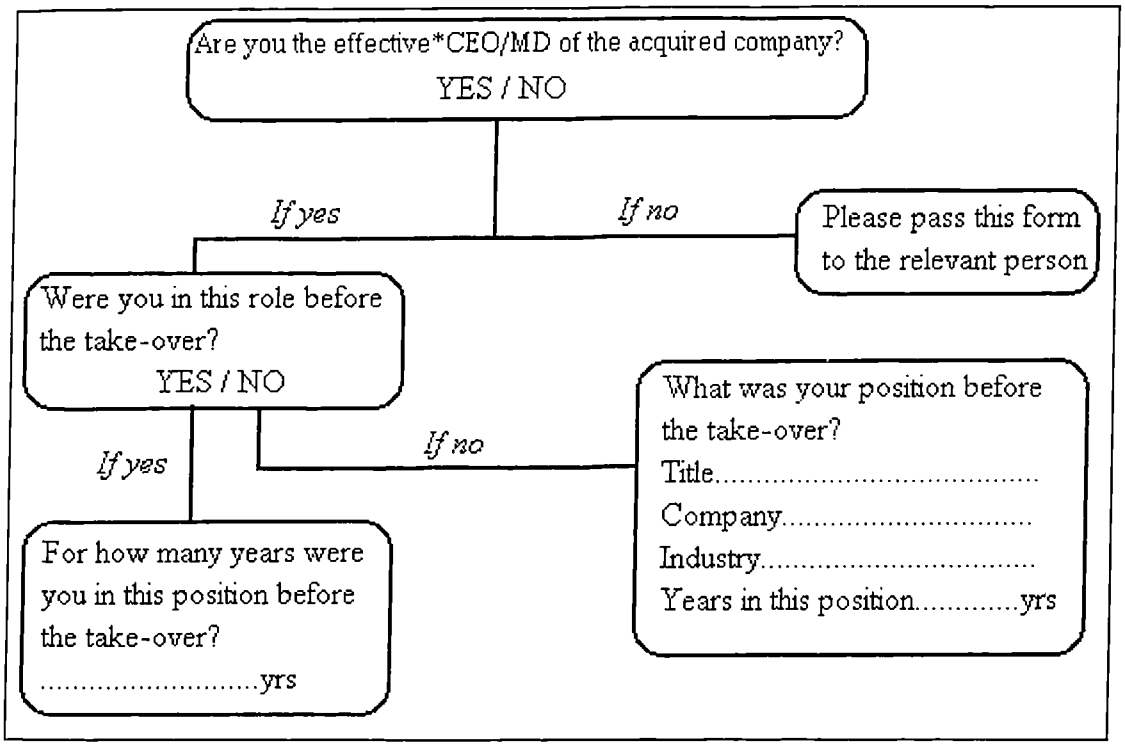
2. What is the acquired company's / division's name, if different from above?
   .....

3. What date was the company acquired?.....mth.....year.

4. What is your full name and title? .....

5. The following diagram asks questions about the executive in charge of the acquired company. As this executive has a variety of titles, he is described as 'The effective CEO/MD' and is one who is able to make key decisions affecting the acquired company.

(please delete as appropriate)



B. About the acquired company

6. In your view, how strong was the acquired company's **cash flow** immediately prior to acquisition (relative to the industry sector)?

Very strong	Moderately strong	Average	Moderately weak	Very weak

7. In your view, how highly **geared** was the acquired company (relative to the industry sector) immediately prior to acquisition?

Very low	Moderately low	Average	Moderately high	Very high

8. In your view, what were the main reasons for the acquisition?

.....

.....

.....

9. In your view. to what extent has the acquisition been successful on the following grounds;

Criteria	Very successful	Satisfactorily successful	Moderately successful	Not at all successful	Too early to say or N/A
Overall success					
Recovering the cost of capital					
Group profitability					
Achieving strategic objectives					
Technological synergies					
Operational integration					
Cultural integration					
I.T. integration					
Gaining market share					
Increasing sales volume					
New product development					
Others (please specify)					

B. About the acquired company (contd)

10. Since the acquisition, has the acquired company benefited from a windfall beyond your control i.e. cyclical upturn in demand, government action, demise of a competitor, change in exchange rates?.....Yes / No

Please specify.....

11. To what extent were you involved in the negotiations that led to the take-over of the company? *(please tick appropriate box)*

Heavily involved in all aspects of the deal	Involved in the operational aspects of the take-over but not involved in some wider issues	An infrequent 'consultancy' type role advising the negotiating team on specific aspects when asked	No involvement

C. About the relationship between the acquired company and its parent

12. To what extent has there been a transfer of physical assets (plant machinery etc.) between the parent and acquired companies? *(please tick an appropriate box)*

Very Low	Quite Low	Medium	Quite High	Very High

13. To what extent has there been a transfer of knowledge and information between the parent and acquired companies? *(please tick an appropriate box)*

Very Low	Quite Low	Medium	Quite High	Very High

14. To what extent has there been a transfer of personnel between the parent and acquired companies? *(please tick an appropriate box)*

Very Low	Quite Low	Medium	Quite High	Very High

C. Relationship between acquired co. and parent (contd)

15. To what extent do you feel that the acquired company is autonomous from the parent?
(please tick an appropriate box)

Very Low Autonomy	Quite Low Autonomy	Moderately Autonomous	Quite Highly Autonomous	Very Highly Autonomous

16. Strategy consultants suggest that there are three main strategic management styles. Which of the following best characterises the strategic management style of the parent group?

Strategic Management Style	**Tick one box only**
Strategic Planning - companies focusing on a few core businesses. The centre actively participates in formulating strategies with business units and often initiates strategic thrusts amongst interrelated businesses.	
Financial Control - strategic decisions are delegated to profit responsible business unit managers. The centre's role is to agree and monitor demanding, short term financial targets for the business	
Strategic Control - a strong commitment to decentralisation and an emphasis on control against demanding targets for the business. Often there are extensive strategic planning systems and processes through which the centre reviews, monitors and challenges business level strategies.	

D. About changes you have made to the acquired company since acquisition

17. Have you made any changes in the finance area? Yes / No

If 'No' please proceed to question 18. If 'Yes' please indicate which specific changes were made and when they were started

Specific change	Was a change made?	How many months after acquisition was the change started?
Structural change to the finance department	Yes / No	
Improve financial control systems	Yes / No	
Adopt parent financial reporting system	Yes / No	
Develop cash flow forecasts	Yes / No	
Control expenditure (all capital and revenue expenditure needs CEO approval)	Yes / No	
Broaden scope of annual profit plans / budgeting systems	Yes / No	
Vigorous steps to reduce debt	Yes / No	
Others (please specify)		

18. Have you made any changes in the marketing area? Yes / No

If 'No' please proceed to question 19. If 'Yes' please indicate changes and when started

Specific change	Was a change made?	How many months after acquisition was the change started?
Structural change to the marketing / sales operation	Yes / No	
Review marketing plan	Yes / No	
Focus on particular market segment	Yes / No	
Implement new marketing initiative	Yes / No	
Introduce or improve after sales service	Yes / No	
Stress getting closer to the customer	Yes / No	
Improve distribution channels	Yes / No	
Improved and more frequent marketing info. to the CEO	Yes / No	
Others (please specify)	Yes / No	

D. Changes made since acquisition (contd)

19. Have you made any changes in the Communications area? Yes / No

If 'No' please proceed to question 20. If 'Yes' please indicate changes and when started

Specific change	Was a change made?	How many months after acquisition was the change started?
Set up extensive formal 1:1 meetings with employees	Yes / No	
Set up direct reporting	Yes / No	
Set up 1: 1 ad hoc problem focused meetings with employees	Yes / No	
Others (please specify)	Yes / No	

20. Have you made any changes in the Human Resources area? Yes / No

If 'No' please proceed to question 21. If 'Yes' please indicate changes and when started

Specific change	Was a change made?	How many months after acquisition was the change started?
Structural change to the personnel department	Yes / No	
Reassign management personnel	Yes / No	
Appoint new senior executive(s)	Yes / No	
Appoint new finance director	Yes / No	
Appoint new marketing / sales director	Yes / No	
Remove senior executive(s)	Yes / No	
Create new positions	Yes / No	
Initiate search for new senior executive	Yes / No	
Top team injects new values/vision	Yes / No	
Top team is more action oriented	Yes / No	
Introduce or change employee incentive scheme	Yes / No	
Change performance appraisal system	Yes / No	
Adopt parent company pay and conditions structure	Yes / No	
Implement management development programme	Yes / No	
Others (please specify)		

D. Changes made since acquisition (contd)

21. Have you made any changes in the Operations Management area? Yes/No

If 'No' please proceed to question 22. If 'Yes' please indicate changes and when started

Specific change	Was a change made?	How many months after acquisition was the change started?
Structural change to the manufacturing operation	Yes / No	
Sale or closure of businesses	Yes / No	
Intensive effort to reduce production costs	Yes / No	
Investigate inventory controls	Yes / No	
Adopt parent inventory controls	Yes / No	
Stock take	Yes / No	
Purchase of new equipment	Yes / No	
Sale of equipment	Yes / No	
Introduce or improve quality control system	Yes / No	
Improve product design	Yes / No	
Adopt new processes	Yes / No	
Invest in Research	Yes / No	
Improve delivery times	Yes / No	
Others (please specify)		

22. Have you made any changes in the Information Technology area? Yes / No

If 'No' please proceed to question 23. If 'Yes' please indicate changes and when started

Specific change	Was a change made?	How many months after acquisition was the change started?
Structural change to the IT department	Yes / No	
Adopt parent systems	Yes / No	
Change information system	Yes / No	
Others (please specify)		

D. Changes made since acquisition (contd)

23. Have you made any other changes to the acquired company that have not been mentioned above? .... Yes / No

If 'No' please proceed to question 24. If 'Yes' please indicate changes and when started.

Specific change	Was a change made?	How many months after acquisition was the change started?
Curtail autonomy / responsibility of a group (please specify .....)	Yes / No	
Create new group (please specify .....)	Yes / No	
Change planning system	Yes / No	
Others (please specify)	Yes / No	

24. Please indicate the time order in which functional changes were begun.

Functional area	Order (1st,2nd etc.)	Functional area	Order (1st, 2nd etc.)
Finance		Marketing	
Human Resources		Communications	
Information Technology		Operations Management	
Other (please specify: .....)			

D. Changes made since acquisition (contd)

25. Outside of specific functional areas, please indicate the importance of other actions you have taken since acquisition.

(Score insignificant actions with a '1' and very significant actions with a '5')

Actions taken	Rating Insignificant.....Very significant					N/A
Establishing / re-establishing, and communicating, your credibility with stakeholders in the acquired company:						
....Banks /financiers	1	2	3	4	5	n/a
....Suppliers	1	2	3	4	5	n/a
....Unions	1	2	3	4	5	n/a
....Customers	1	2	3	4	5	n/a
....The press	1	2	3	4	5	n/a
....Others (please specify.....)	1	2	3	4	5	n/a
Visits to customers, distributors to gain feedback on the acquired company's performance	1	2	3	4	5	n/a
Tour factories / operations of the acquired company	1	2	3	4	5	n/a
Spending time meeting, and familiarising yourself, with staff in the acquired company (to get a feel for the business)	1	2	3	4	5	n/a
Communicating with the acquired company staff through formal channels i.e. notices, news letters etc.	1	2	3	4	5	n/a
Communicating directly with the Board of the parent group	1	2	3	4	5	n/a
Communicating with other parts of the parent group	1	2	3	4	5	n/a
Set up problem focused task forces	1	2	3	4	5	n/a
Establish strategic review or analysis process	1	2	3	4	5	n/a
Encourage buying and selling between acquired company and its parent	1	2	3	4	5	n/a
Engage consultants	1	2	3	4	5	n/a
Other (please specify)	1	2	3	4	5	n/a

D. Changes made since acquisition (contd)

26. If you have introduced new managers to the company, were they well known to you before their appointment?.....Yes / No

27. If new managers have been appointed, from which area have they come?

Within the parent group	Yes / No
Within the same industry	Yes / No
Outside the industry	Yes / No

E. About your management style

28. Given the environment in which you work, do you feel that, to get things done, you have to be assertive and override other people's points of view?

Strongly agree	Mostly agree	Mostly disagree	Strongly disagree

29. Given the environment in which you work, do you feel you have to take into account most people's views in the acquired company for major changes you make?

Strongly agree	Mostly agree	Mostly disagree	Strongly disagree

30. To what extent do you feel that you need to adjust your decisions to reflect the internal politics of the acquired company?

No adjustment	Little adjustment	Moderate adjustment	Considerable adjustment

31. Do you feel that there is a change in your management style in the post acquisition period as compared with normal times? .....Yes / No

E. About your management style (contd)

32. If 'YES' to question 31, in what ways is your management style in the post acquisition period different to normal times?.....
.....
.....
.....
.....

33. What aspects of your management style do you think are most important in a post acquisition situation?
.....
.....
.....

F. About your corporate structure

34. Who is your immediate boss?

Name.....Title.....Company.....

35. Who is the most senior person reporting to you?

Name.....Title.....Company.....

36. Are you located at Head Office or at the acquired company?

HO / Acquired co.

37. In terms of seeking approval from your superior / Board for changes you make to the acquired company, how do you define what type of decisions require higher authority? (or at what point does your authority end?) .....
.....

38. Is a team of head office executives being used in the main for the integration of this acquisition? .....Yes /No

G. About your background and experience

39. Please list the **main** organisational functions in which you have had direct experience. *(please include time spent in other organisations)*

Functional area *(i.e. finance, marketing etc.)*	Company/Group	Industry	Time *(Years)*	Title
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....

40. Please list your professional qualifications and degrees

.....
.....
.....

41. Have you managed acquisitions before? .....Yes / No

42. If 'Yes', how many acquisitions have you managed?.....

H. Do you have any further comments?

.....
.....
.....
.....
.....
.....
.....

Please return this form in the envelope provided to:

Duncan Angwin

Fellow, Marketing & Strategic Management Group,

Warwick Business School,

University of Warwick

COVENTRY CV4 7AL

Appendix 3.2 Change variable origin

The following shows the questions as they appear in the questionnaire on a function by function basis. Against each is the source of the question from the Turnaround literature and Gabarro's work on taking charge.

Question 17 Changes in the finance area

Question	Turnaround literature	Gabarro (p177)
Structural change to the finance department		• Organisation structure
Improve financial control systems	• Grinyer, Mayes & McKiernan (3.3.1 p168) • Slatter	• Management systems
Adopt parent financial reporting system	• Grinyer, Mayes & McKiernan (3.3.1 p169) • Slatter	• Management systems
Develop cash flow forecasts	• Grinyer, Mayes & McKiernan (3.3.1a p168) • Slatter	• Management systems
Control expenditure (all capital and revenue expenditure needs CEO approval)	• Grinyer, Mayes & McKiernan (3.3.1e p168) • Slatter	• Management systems
Broaden scope of annual profit plans / budgeting systems	• Grinyer, Mayes & McKiernan (3.3.1b p168) • Slatter	• Management systems
Vigorous steps to reduce debt	Grinyer, Mayes & McKiernan (3.3.1 p168, 3.9 p171) • Slatter	• Management systems

Question 18 Changes in the marketing area

Question	**Turnaround literature**	**Gabarro** (p177)
Structural change to the marketing / sales operation		• Organisation structure (p177)
Review marketing plan	• Grinyer, Mayes & McKiernan (3.4.1 p168) • Slatter	• Management systems (p177)
Focus on particular market segment	• Grinyer, Mayes & McKiernan (3.4.4 p169) • Slatter	
Implement new marketing initiative	• Grinyer, Mayes & McKiernan (3.4.5 p169) • Slatter	
Introduce or improve after sales service	• Grinyer. Mayes & McKiernan (3.5.3 p169)	
Stress getting closer to the customer	• Grinyer, Mayes & McKiernan (3.6.11 p170) • Peters & Waterman	
Improve distribution channels	• Grinyer, Mayes & McKiernan (3.6.4 p169, 3.7.4 p170) • Slatter	• Organisation structure (p177)
Improved and more frequent marketing info. to the CEO	• Grinyer, Mayes & McKiernan (3.6.9 p170)	• Management systems (p177)

Question 19 Changes in the Communications area

Question	**Turnaround literature**	**Gabarro** (p177)
Set up extensive formal 1:1 meetings with employees		• Meetings
Set up direct reporting		Entry activity
Set up 1: 1 ad hoc problem focused meetings with employees	• (Grinyer, Mayes & McKiernan (3.7.6 p170))	• Meetings

Question 20 Changes in the Human Resources area

Question	**Turnaround literature**	**Gabarro** (p177)
Structural change to the personnel department		• Organisation structure •
Reassign management personnel	• Grinyer, Mayes & McKiernan (3.1.2 p168) • Slatter	• Management personnel
Appoint new senior executive(s)	• Grinyer, Mayes & McKiernan (3.1.2 p168) • Slatter	• Management personnel
Appoint new finance director	• Grinyer, Mayes & McKiernan (3.1.2 p168) • Slatter	• Management personnel
Appoint new marketing / sales director	• Grinyer, Mayes & McKiernan (3.1.2 p168) • Slatter	• Management personnel
Remove senior executive(s)	• Grinyer, Mayes & McKiernan (3.1.1a p168) • Slatter	• Management personnel
Create new positions		
Initiate search for new senior executive		• Management personnel
Top team injects new values/vision	• Grinyer, Mayes & McKiernan (3.1.4 p168) • Peters & Waterman	
Top team is more action oriented	• Grinyer, Mayes & McKiernan (3.1.4 p168) • Peters & Waterman	

Introduce or change employee incentive scheme	• Grinyer, Mayes & McKiernan (3.11.4 p172)	• Management systems (p177)
Change performance appraisal system		• Management systems (p177)
Adopt parent company pay and conditions structure		• Management systems (p177)
Implement management development programme	• Grinyer, Mayes & McKiernan (3.7.5a p170)	• Management systems (p177)

Question 21 Changes in the Operations Management

Question	**Turnaround literature**	**Gabarro** (p177)
Structural change to the manufacturing operation		• Organisation structure
Sale or closure of businesses	• Grinyer, Mayes & McKiernan (3.4.2 p168) • Peters & Waterman	• Organisation structure
Intensive effort to reduce production costs	• Grinyer, Mayes & McKiernan (3.7.5 p170) • Slatter	
Investigate inventory controls	• Grinyer, Mayes & McKiernan (3.6.10 p170, 3.7.3c p170) • Slatter	• Management systems
Adopt parent inventory controls	• Grinyer, Mayes & McKiernan (3.7.5c p170) • Slatter	• Management systems

Stock take	• Grinyer, Mayes & McKiernan (3.6.10 p170, 3.7.3c p170) • Slatter	
Purchase of new equipment	• Grinyer, Mayes & McKiernan (3.4.8 p169, 3.7.5f p170) • Slatter	
Sale of equipment	• Grinyer, Mayes & McKiernan (3.9.1 p171) • Slatter	
Introduce or improve quality control system	• Grinyer, Mayes & McKiernan (3.5.1 p169)	• Management systems
Improve product design	• Grinyer, Mayes & McKiernan (3.5.1 p169)	
Adopt new processes	• Grinyer, Mayes & McKiernan (3.4.8 p169) • Slatter	
Invest in Research		
Improve delivery times	• Grinyer, Mayes & McKiernan (3.5.2 p169)	

Question 22 Changes in the Information Technology

Question	**Turnaround literature**	**Gabarro** (p177)
Structural change to the IT department		• Organisation structure
Adopt parent systems		• Management systems
Change information system		• Management systems

Question 23 Other changes to the acquired company that have not been mentioned above

Question	**Turnaround literature**	**Gabarro** (p177)
Curtail autonomy / responsibility of a group		
Create new group		• Organisation structure
Change planning system	• Grinyer, Mayes & McKiernan (3.2.5 p168)	• Management systems

Appendix 3.3 Testing for non-response bias

Comparison of population and sample means

- **Transformed* data for responding sample and population by sales and bid value**

	Sample mean	Population mean	Sample standard error	*t*
Sales	3.248	3.387	.155	-0.896
Bid value	3.068	3.152	.138	-0.608

Degrees of freedom = 65
* Log-normal

The critical value for *t* with sixty degrees of freedom is 1.671 at the .05 level. We can therefore conclude that there is no significant difference between our sample and the population in aggregate terms of the distribution of sales and bid value.

Comparison of population and sample quintiles

- **Target sales**

Population cases	Value	Expected number of cases for sample	Observed number for sample	Chi-squared value
0% - 20%	£11.0m	13.2	15	0.136
21% - 40%	£19.6m	13.2	12	0.090
41% - 60%	£40.0m	13.2	15	0.136
61% - 80%	£101.0m	13.2	15	0.136
81% - 100%	£2.3bn	13.2	9	1.336
			n = 66	1.834

4 degrees of freedom. Chi-squared value for .05 level = 9.49 ∴ sample is not significantly different from the population.

- **Numbers of employees**

Population cases	Value	Expected number of cases for sample	Observed number for sample	Chi-squared value
0% - 20%	0 - 128	11.8	16	1.494
21% - 40%	129 - 345	11.8	16	1.494
41% - 60%	346 - 660	11.8	13	0.102
61% - 80%	661 - 1,600	11.8	10	0.152
81% - 100%	1,601 - 75,000	11.8	4	5.156
			n = 59	8.397

4 degrees of freedom. Chi-squared value for .05 level = 9.49 ∴ sample is not significantly different from the population.

- **Bid value**

Population cases	Value	Expected number of cases for sample	Observed number for sample	Chi-squared value
0% - 20%	£0 - £10.5m	13.6	20	3.011
21% - 40%	£10.6m - £14.25m	13.6	9	1.555
41% - 60%	£14.3m - £40.0m	13.6	11	0.497
61% - 80%	£40.1m - £101.0m	13.6	13	0.026
81% - 100%	£101.1m - £2.3bn	13.6	15	0.144
			n = 68	5.233

4 degrees of freedom. Chi-squared value for .05 level = 9.49 ∴ sample is not significantly different from the population.

Appendix 3.4 Interviewees

In the interests of confidentiality, the identity of the interviewees and their companies have been disguised. An indicator of the size of the deals can be gained from the following scheme, based upon final bid price: Small deals are from £8m to £25m, medium deals from £26m to £100m, large deals from £101m to £500m, and very large deals from £501m to £4bn. There is also an indication of the length of time that has elapsed between questionnaire return and interview so that the reader can gain a perception of 'how much water has passed under the bridge'. There is no indication of when questionnaires were returned or when interviews were conducted, to protect the identity of the interviewees.

	Acquisition type	**Deal size**	**Sector**	**Time elapsed**	**Managing executive alias**	**Executive type**
1	**Preservation**	Small	Precision engineering	3 years +	Andrews	**I**
2	"	Small	Packaging manufacturing	1 year	Blackman	**I**
3	"	Med.	Transport	1 year	Crossman	**I**
4	"	Med.	Medical	1 year	Derby	**O**
5	"	Large	Communication	1 year	Eccleston	**O**
6	"	Large	Communication	2 years +	Fredricks	**I**
7	**Absorption**	Small	Composite manufacture	1 year	Garner	**I**
8	"	Small	Professional services	2 years +	Heath	**I**
9	"	Small	Professional services	2 years +	James	**O**
10	"	Medi.	Food manufacturing	1 years +	Keaton	**O**
11	"	Med.	Utilities	1 years +	Lambert	**O**
12	"	V. large	Communications	1 year	Martin	**O**

13	**Holding**	Small	Financial services	1 year	Neslon	**I**
14	"	Small	Engineering	2 years +	Orton	**I**
15	"	Small	Property services	3 years +	Price	**I**
16	"	Small	Industrial service	3 years +	Rowland	**O**
17	"	Small	Electronics	3 years +	Stanton	**I**
18	"	Large	Industrial land usage	4 years +	Taylor	**I**

19	**Symbiotic**	Large	Food manufacture	4 years +	Vaughan	**O**

20	**Central***	Small	Engineering	2 years +	Williams	**O**

* This interview was carried out on request but fell between acquisition types

Appendix 3.5 Interview protocol and post interview summary

Interview Protocol

1. Background

- Background to myself and the project
- Confirm details of the acquisition: nature of the business, consideration, turnover, profits and number of employees at the time, relative size
- Managing executive: role in the negotiations, in running the acquired company
- Purpose of the acquisition from both sides

2. Post-acquisition - changes

- What were the most important issues and why? - examples?
- What things went well? - examples?
- What things went badly? - examples?
- What changes were difficult? - examples?
- What changes were easy? - examples?
- Were there phases of change? Which changes had greater priority? - Why this order? Why are some things omitted or less important? Is speed an indicator of importance? examples?
- During the post-acquisition phase, was there a change in the way in which the acquired company was perceived / managed by the new parent?

3. Post-acquisition - type

- Discuss classification i.e. interviewee seems to be discussing Holding acquisitions, why this type?
- Discuss change patterns shown in the survey results.

4. Post - acquisition - Insider / Outsider

- In most acquisitions of [this type], incumbents usually [stay / go]. What is your explanation for this in your own context?

5. Post-acquisition - Success

- How would you rate the success of this acquisition? - what measures are indicators for you?

Post interview summary

Contact Summary form

Contact type:

Visit:

Phone:

Interviewee:

Company:

Interview date:

1. **What were the main issues or themes that struck you in this contact?**

2. **Summarise the information collected (or not collected) on each of the target questions**

3. **Anything else that struck you as interesting, illuminating or important?**

4. **What new questions do you have for the next interview (or to be followed up with this interviewee?)**

Appendix for Chapter 4

Appendix 4.1 Responding sample actual case locations on the Haspeslagh and Jemison (1991) contingency framework

Autonomy

Resource Transfer	1.0	2.0	3.0	4.0	5.0
1.0 - 1.4	5, 21, 45		51, 63	10, 46, 50, 56	19, 42, 48, 60
1.5 - 1.9	Holding	59	15,24,55	32, 41	39 Preservation
2.0 - 2.4	18, 26, 44	17	4, 30, 34, 37, 43, 54, 62, 69	8, 12, 22, 25, 33, 36, 40, 52, 53, 68	20, 38
2.5 - 2.9		14	7, 35, 70		28
3.0	47	29, 66		6, 11, 16, 31	
3.1 - 3.4	27, 65		23	57, 64	
3.5 - 3.9	Absorption	61	67		Symbiotic
4.0 - 4.4	3, 9			58	
4.5 - 5.0	2, 13	49			

Adapted from Haspeslagh and Jemison (1991)
Note: One case is missing due to a missed question in the reply, n=69
* Resource transfer as an average of the three dimensions. The rather strange axis, with 3.0 standing upon its own, is to show that a number of cases cannot be ascribed to one of the four acquisition types.

Appendix 4.2 Pre-acquisition factors as determinants of post-acquisition success

- Hostile versus Friendly acquisitions against 'Overall success'

Mean Rank	Cases	
33.09	62	Agreed
39.88	4	Hostile

	66	Total

U	W	Exact 2-Tailed P	Corrected for ties Z	2-Tailed P
98.5	159.5	.5077	-.7449	.4563

- Hostile versus Friendly acquisitions against 'Recovering cost of capital'

Mean Rank	Cases	
33.01	62	Agreed
41.13	4	Hostile

	66	Total

U	W	Exact 2-Tailed P	Corrected for ties Z	2-Tailed P
93.5	164.5	.4272	-.8453	.3979

Hostile versus Friendly acquisitions against 'Group profitability'

Mean Rank	Cases	
32.18	61	Agreed
45.50	4	Hostile

	65	Total

		Exact	Corrected for ties	
U	W	2-Tailed P	Z	2-Tailed P
72.0	182.0	.1838	-1.4468	.1480

- Hostile versus Friendly acquisitions against 'Achieving strategic objectives'

Mean Rank	Cases	
32.41	61	Agreed
34.33	3	Hostile

	64	Total

		Exact	Corrected for ties	
U	W	2-Tailed P	Z	2-Tailed P
86.0	103.0	.8812	-.1866	.8520

- Sales ratio against success variables

	Sales ratio	Overall success	Recovering cost of capital	Group profitability
Overall success	-.3158 N (23) Sig .067			
Recovering cost of capital	.2091 N (23) Sig .200	.4893 N (69) Sig .000		
Group profitability	.0049 N (23) Sig .977	.6641 N (68) Sig .000	.6461 N (68) Sig .000	
Achieving strategic objectives	.1041 N (21) Sig .556	.4483 N (67) Sig .000	.3658 N (67) Sig .000	.3626 N (66) Sig .001

- Sales ratio by acquisition type

Mean Rank	Cases	
9.80	5	Holding acquisitions
4.33	3	Absorption acquisitions
8.50	2	Preservation acquisitions
9.50	6	Symbiotic acquisitions

	16	Total

			Corrected for ties		
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
2.9353	3	.4017	2.9353	3	.4017

- Pre-acquisition Gearing and Cashflow against post-acquisition success

	Pre - acq cashflow	Pre-acq gearing	Overall success	Recovering cost of capital	Group profit
Pre-acq gearing	.3469 N (69) Sig .000				
Overall success	.2654 N (69) Sig .010	-.0238 N (68) Sig .820			
Recovering cost of capital	.2667 N (69) Sig .007	.0193 N (68) Sig .847	.4893 N (69) Sig .000		
Group profitability	.3250 N (68) Sig .001	-.0049 N (67) Sig .962	.6641 N (68) Sig .000	.6461 N (68) Sig .000	
Achieving strategic objectives	.1850 N (67) Sig .072	-.0205 N (66) Sig .844	.4483 N (67) Sig .000	.3658 N (67) Sig .000	.3626 N (66) Sig .001

- Pre-acquisition cash flow by acquisition type

Mean Rank	Cases	
29.63	12	Holding acquisitions
29.13	8	Absorption acquisitions
17.82	14	Preservation acquisitions
22.31	13	Symbiotic acquisitions

	47	Total

			Corrected for ties		
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
6.1781	3	.1033	6.4896	3	.0901

- Pre-acquisition gearing by acquisition type

Mean Rank	Cases	
25.88	12	Holding acquisitions
30.31	8	Absorption acquisitions
18.36	14	Preservation acquisitions
22.58	12	Symbiotic acquisitions

	46	Total

			Corrected for ties		
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
4.5477	3	.2081	4.8886	3	.1801

Note

The significance levels for these results are less marked when controlling for elapsed time by examining acquisitions where one to three years have elapsed.

Appendix for Chapter 7

Appendix 7.1 Time between acquisition and questionnaire return by organisational Insider / Outsider

Mean Rank	Cases	
32.93	23	Outsider
33.80	43	Insider
--		
	66	Total

U	W	Corrected for ties Z	2-Tailed P
481.5	757.5	-.1750	.8611

Appendix 7.2 Organisational Insiders / Outsiders by functional change

1) Change in the finance area

Organisational Outsiders are significantly more associated with change than Organisational Insiders in five out of seven items.

Table 1 Changes in the Finance area (Q17) by Organisational Insider / Outsider

Variable	Test	Sig	Explanation
Structural change to the finance department	Cross tabs chi squared	**.04**	82.6% of Outsiders are associated with change: 41.9% of Insiders are not
Improve financial control systems	"	**.01**	82.6% of Outsiders are associated with change: 48.8% of Insiders are not
Adopt parent financial reporting system	"	.11	(91.3% of Outsiders are associated with change: 27.9% of Insiders are not)

Develop cash flow forecasts	"	**.002**	73.9% of Outsiders are associated with change: 65% of Insiders are not
Control expenditure (all capital and revenue expenditure needs CEO approval)	"	**.004**	73.9% of Outsiders are associated with change: 63.4% of Insiders are not
Broaden scope of annual profit plans / budgeting systems	"	**.10**	81.8% of Outsiders are associated with change: 38.1% of Insiders are not
Vigorous steps to reduce debt	"	.48	38.1% of Outsiders are associated with change: 70.7% of Insiders are not.

n = 66

Outsiders appear to be more prominent in terms of establishing and improving financial controls, controlling expenditure and developing cashflow forecasts. These actions seem consistent with Datta and Guthrie's (1994) study which associates Outsiders with companies with reduced profitability. This also accords with the turnaround literature that associates Outsiders with turnarounds (Whittington, 1993: 122) and sees early actions as being the development of cash-flow forecasts, controlling expenditure (Slatter, 1984: 130-132) and stronger financial controls (Grinyer, Mayes and McKiernan, 1989: 78)

The weaker associations are where parent financial reporting is adopted and where there are attempts to reduce debt. The former is unsurprising as nearly 80% of all acquisitions in our responding sample adopted parent financial reporting and, as we argued in the previous chapter, this occurs almost regardless of the type of acquisition. The lack of a significant association between Outsiders and reducing the level of debt seems to contradict the suggestion that Outsiders are associated with financially weaker firms where we might expected to see attempts to reduce debt. However when we examined associations between Outsiders / Insiders and the characteristics of the acquired company at the time of acquisition (see table 2), using a Mann-Whitney U - Wilcoxon Rank Sum W Test, we discovered that there was a strong association between Outsiders and weak cashflows in the acquired company but no significant association between Outsiders and acquired company gearing.

Table 2 Acquired company's cash flow before acquisition by Insider / Outsider

Mean Rank	Cases	
40.43	23	Outsider
29.79	43	Insider
	--	
	66	Total

			Corrected for ties
U	W	Z	2-Tailed P
335.0	930.0	-2.2051	.0274

Acquired company's gearing before acquisition
by Insider / Outsider

Mean Rank	Cases	
37.37	23	Outsider
30.61	42	Insider
	--	
	65	Total

Corrected for ties

U	W	Z	2-Tailed P
382.5	859.5	-1.4322	.1521

Whilst we might intuitively expect Outsiders to be associated with reduction in gearing as they are linked with financially weaker firms, the turnaround literature remarks that debt reduction is not a distinguishing characteristic in itself and indeed in the Sharpbenders study the control companies exhibited higher levels of debt reduction than the Sharpbenders themselves (Grinyer, Mayes and McKiernan, 1989: 98).

Chapter 5 showed that acquired companies are subject to high levels of change across the board in the finance area and that changes are generally imposed with little regard for acquisition characteristics. However, the above shows that despite the high levels of change, the organisational Insider / Outsider dichotomy still prevails for most items and there is a link between the items in which there are more changes by Outsiders than Insiders and the financial strength of the acquired company. In particular the items of most significance are very similar to those identified in the turnaround literature as necessary to achieve a marked improvement in the performance of a company.

2) Changes in the marketing area

Table 3 shows that the pattern of organisational Outsiders being associated with more change than organisational Insiders continues to hold true for all variables used in the marketing area, and is significant for seven out of eight items.

Table 3 Changes in the Marketing area (Q18) by organisational Insider / Outsider

Variable	Test	Sig	Explanation
Structural change to the marketing / sales operation	Cross tabs chi squared	**.02**	81.0% of Outsiders are associated with change: 48.8% of Insiders are not.
Review marketing plan	"	**.01**	81.0% of Outsiders are associated with change: 51.2% of Insiders are not
Focus on particular market segment	"	**.0007**	66.7% of Outsiders are associated with change: 76.7% of Insiders are not
Implement new marketing initiative	"	**.009**	76.2% of Outsiders are associated with change: 58.1% of Insiders are not
Introduce or improve after sales service	"	.12	(50.0% of Outsiders are associated with change: 69.8% of Insiders are not)
Stress getting closer to the customer	"	**.01**	65.0% of Outsiders are associated with change: 67.4% of Insiders are not
Improve distribution channels	"	**.01**	57.9% of Outsiders are associated with change: 75.6% of Insiders are not
Improved and more frequent marketing info. to the CEO	"	**.006**	66.7% of Outsiders are associated with change: 69.0% of Insiders are not

n 64

It is clear from table 3 that Outsiders are associated with major structural changes to the marketing / sales operations and with substantial reorientation in marketing effort. 81% of Outsiders reviewed the marketing plan, made substantial changes to marketing and sales operations and reviewed marketing plans. 76.2 % of Outsiders implemented a new marketing initiative and 66.7% focused upon a particular market segment. In all these areas the amount of change associated with Outsiders was significantly greater than for Insiders. This difference was greatest in those actives which involved either a diminution or expansion in marketing / sales. In focusing upon a particular marketing segment the difference between Outsider and Insiders was at the .0007 level with 66.7% of Outsiders making changes whilst 76.7% of Insiders did not.

Other significant differences included getting closer to the customer and improving distribution channels. Outsiders also showed significantly higher associations with improving the flow of marketing information to the top. This is perhaps not surprising as they are taking on a business that is largely unknown and they need to understand it as quickly as possible.

We would argue that marketing is closely bound with the Managing Executive's strategic role and vision. For marketing to be substantially altered is to doubt the Managing Executive. For this reason, Insiders are unlikely to make substantial changes to marketing and sales and where these are required we night expect Outsiders to be present.

3) Changes in the communications area

Table 4 shows again that Outsiders are significantly more associated with change than Insiders.

Table 4 Changes in the Communications area (Q19) by organisational Insider / Outsider

Variable	Test	Sig	Explanation
Set up extensive formal 1:1 meetings with employees	Cross tabs chi squared	**.01**	42.9% of Outsiders are associated with change: 85.7% of Insiders are not
Set up direct reporting	"	**.003**	76.2% of Outsiders are associated with change: 62.8% of Insiders are not
Set up 1: 1 ad hoc problem focused meetings with employees	"	**.003**	61.9% of Outsiders are associated with change: 76.2% of Insiders are not

n 64

Outsiders tend to focus more upon setting up direct reporting than ad-hoc problem focused meetings or extensive formal meetings. The direct reporting tends to emphasise the notion that Outsiders are attempting to achieve a rapid understanding and perhaps accountability of the business. Ad-hoc meetings also seem important although Kotter (1982) would suggest that these informal meetings should be significantly more important in terms of establishing control and understanding of a business.

The other feature of the table is the lack of changes carried out by Insiders. This is slightly surprising as the acquisition literature is replete with advice upon the importance of good communications after an acquisition. However it may well be that Insiders feel they already have optimal communications channels which need no further alteration.

4) Changes in the Human Resources area

The Insider / Outsider difference is significant for ten out of fourteen items in table 5.

Table 5 Changes in the Human resources area (Q20) by organisational Insider / Outsider

Variable	Test	Sig	Explanation
Structural change to the personnel department	Cross tabs chi squared	.17	(40.9% of Outsiders are associated with change: 75.6% of Insiders are not)
Reassign management personnel	"	**.001**	77.3% of Outsiders are associated with change: 64.3% of Insiders are not
Appoint new senior executive(s)	"	**.02**	77.3% of Outsiders are associated with change: 51.2% of Insiders are not
Appoint new finance director	"	.16	(54.5% of Outsiders are associated with change: 63.4% of Insiders are not)
Appoint new marketing / sales director	"	**.05**	55.0% of Outsiders are associated with change: 70.7% of Insiders are not
Remove senior executive(s)	"	**.01**	90.9% of Outsiders are associated with change: 39.0% of Insiders are not
Create new positions	"	.41	(52.4% of Outsiders are associated with change: 58.5% of Insiders are not)
Initiate search for new senior executive	"	.90	(23.8% of Outsiders are associated with change: 77.5% of Insiders are not)
Top team injects new values/vision	"	**.002**	81.0% of Outsiders are associated with change: 60.0% of Insiders are not
Top team is more action oriented	"	**.003**	76.2% of Outsiders are associated with change: 63.4% of Insiders are not
Introduce or change employee incentive scheme	"	**.09**	68.2% of Outsiders are associated with change: 53.7% of Insiders are not
Change performance appraisal system	"	**.0003**	68.2% of Outsiders are associated with change: 78.0% of Insiders are not
Adopt parent company pay and conditions structure	"	**.004**	66.7% of Outsiders are associated with change: 70.7% of Insiders are not
Implement management development programme	"	**.02**	59.1% of Outsiders are associated with change: 70.7% of Insiders are not

n – 64

As one might expect, the appointment of an Outsider is also associated with the removal of senior executives, the reassignment of management personnel and the appointment of new executives. Whilst Outsiders are more associated with changing the marketing and finance directors, this occurs in only some 50% of cases which suggests that the changes in senior executives is more widespread than these two offices.

Outsiders are associated with new values and vision and a greater sense of action. This concords with the picture of Outsiders being associated with greater levels of change. Reinforcing these changes are alterations to the performance appraisal system in particular as well as the employee incentive scheme. Whilst this is often a move to synchronise with the parent systems, it is an important indicator of the new values of the acquired company. This is often reinforced by the implementation of a management development programme.

Insiders are reluctant to make major changes in core values. In particular in the section on changes in marketing we suggested the close association between the Incumbent and the marketing function and so it is perhaps not surprising that here we find that 70.7% of Insiders do not change their marketing directors although it seems that in 61% of cases they do remove senior directors. The other area of little change, with 70% - 78% of Insiders saying they do not make changes, is the area of employee incentives, performance appraisal and management development programmes as it already re-enforces the current set of core values.

5) Changes in the Operations Management area

In eight out of thirteen areas Outsiders show a stronger association with change than Insiders in the Operation Management area. Table 6 shows that this pattern is also present for most of the non-significant items although it would seem that in the Operations Management context the distinction between Insider and Outsider is less marked.

Table 6 Changes in the Operations Management area (Q21) by organisational Insider / Outsider

Variable	Test	Sig	Explanation
Structural change to the manufacturing operation	Cross tabs chi squared	**.02**	55.0% of Outsiders are associated with change: 74.4% of Insiders are not
Sale or closure of businesses	"	.45	(43.5% of Outsiders are associated with change: 65.9% of Insiders are not)

Intensive effort to reduce production costs	"	.42	(57.1% of Outsiders are associated with change: 53.7% of Insiders are not)
Investigate inventory controls	"	**.03**	65.0% of Outsiders are associated with change: 64.0% of Insiders are not
Adopt parent inventory controls	"	**.03**	45.0% of Outsiders are associated with change: 81.0% of Insiders are not
Stock take	"	**.001**	57.9% of Outsiders are associated with change: 82.9% of Insiders are not
Purchase of new equipment	"	.11	(54.5% of Outsiders are associated with change: 65.9% of Insiders are not)
Sale of equipment	"	.71	(18.2% of Outsiders are associated with change: 85.4% of Insiders are not)
Introduce or improve quality control system	"	**.03**	45.0% of Outsiders are associated with changes: 80.5% of Insiders are not
Improve product design	"	.88	(25.0% of Outsiders are associated with changes: 73.2% of Insiders are not)
Adopt new processes	"	**.04**	44.4% of Outsiders are associated with change: 80.5% of Insiders are not
Invest in Research	"	**.01**	43.8% of Outsiders are associated with change: 85.4% of Insiders are not
Improve delivery times	"	**.01**	50.0% of Outsiders are associated with change: 80.5% of Insiders are not

n – 64

The main areas of significant difference between Insiders and Outsiders, where a majority of Outsider make changes, is in terms of investigating inventory controls, with 65% of Outsiders citing change, stock taking, with 57.9% of Outsiders citing change, and structural changes to the manufacturing operation with 55% of Outsiders citing change. Essentially this is about uncovering what has actually been purchased and taking control. There is also a willingness to make substantial changes to the operations which Insiders are clearly loathed to do with 74.4% saying they do not make changes.

In terms of improving controls Outsiders are also associated with introducing or improving the quality control system and in 45% of cases the parent inventory control system is adopted. All of the control items show Outsiders making many more changes than Insides which is significant at the .03 level.

Associated with better controls is the effort to reduce production costs and 57.1% of Outsiders make considerable efforts in this area. However this is not a statistically significant difference

from Insiders who appear to be equally likely to reduce costs and trim operations. It is noticeable that in terms of selling or closing businesses, reducing production costs, and selling equipment, there was no significant difference between Insiders and Outsiders.

Outsiders also seem to be associated with investment as 44.4% adopted new processes which was significantly greater than for Insiders at the .04 level, and in terms of investing in research with 43.8% of Outsiders making changes which was significantly different from Insiders where 85.4% did not make changes; significant at the .01 level.

It would seem that Outsiders are more associated with focusing upon improved controls, major changes to the operation and investment. However there was no significant difference in terms of attempting to drive costs down through sale of assets.

6) Changes in the Information technology area

Table 7 shows a clear association between Outsiders and change in the area of information technology. 73.9% of Outsiders make structural changes to the Information technology department whereas 75.6% of Insiders do not. Outsiders are also more associated with change in Information Systems than Insiders and although the difference is maintained for the introduction of parent systems, the magnitude is reduced.

Table 7 Changes in the Information technology area (Q20) by organisational Insider / Outsider

Variable	Test	Sig	Explanation
Structural change to the IT department	Cross tabs chi squared	**.0001**	73.9% of Outsiders are associated with change: 75.6% of Insiders are not
Adopt parent systems	"	**.10**	52.2% of Outsiders are associated with change: 68.3% of Insiders are not
Change information system	"	**.04**	65.2% of Outsiders are associated with change: 61.0% of Insiders are not

Appendix 7.3 Organisational Insiders / Outsiders by autonomy and resource transfer

- **Autonomy**

Table 8 below shows the results of a Mann Whitney U-Wilcoxon rank sum test for association between level of autonomy and the Insider /Outsider dichotomy.

Table 8 Acquisition autonomy v. organisational Insider / Outsider

Mean Rank	Cases	
28.39	23	Outsider
36.23	43	Insider
	--	
	66	Total

U	W	Z (Corrected for ties)	2-Tailed P
377.0	653.0	-1.6306	.1030

We can see that there is a significant relationship between level of autonomy and the presence of an Insider or Outsider. This appears to fit with the view that acquired companies with considerable autonomy will be performing well[1] and therefore retain their Insiders, whilst acquired companies with low autonomy might exhibit poor performance and therefore lose their Insiders. This provides some support for Hayes and Hoag's (1974) top management observation that turnover is negatively associated with autonomy. We examined this issue further by using a cross-tabulation procedure, shown in table 9, which did not yield a significant association. However we can see that the area of most significance is where there is high autonomy, as there are higher numbers of Insiders than expected and lower numbers of Outsiders. Where there is low autonomy, we find higher numbers of Outsiders and lower numbers of Insiders than expected by probability although this does not contribute substantially to the chi squared value.

[1] Autonomy is significantly and negatively associated with pre-acquisition cashflow (.002 level) and gearing (.003 level) although the correlation is low at -.035

Table 9 Autonomy by Insider / Outsider

INSOUT97	Count / Exp Val / Row Pct	AUTONOMY Low 1	Medium 2	High 3	Row Total
Outsider	1.00	8 7.0 34.8%	7 5.9 30.4%	8 10.1 34.8%	23 34.8%
Insider	2.00	12 13.0 27.9%	10 11.1 23.3%	21 18.9 48.8%	43 65.2%
	Column Total	20 30.3%	17 25.8%	29 43.9%	66 100.0%

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Chi-Square	Value	DF	Significance
Pearson	1.20725	2	.54683
Likelihood Ratio	1.22105	2	.54306
Mantel-Haenszel test for linear association	.89317	1	.34462

Minimum Expected Frequency - 5.924

	Statistic	Approximate Significance
Phi	.13525	.54683 *1

*1 Pearson chi-square probability

Number of Missing Observations: 4

- **Resource transfer**

Table 10 shows the constituents of the resource transfer axis against Management type. The chi-squared values shows very significant associations between resource transfer and Managing Executive type.

Table 10 Organisational Insiders / Outsiders against resource transfers

Variable	Test	Sig.	Explanation
Information transfer	Chi-squared cross tab	.01	Outsiders are associated in 73.9% of cases with high information transfer: Insiders show an even distribution from high to low transfer
Asset transfer	"	.01	In 32.5% of cases Outsiders are associated with high asset transfer: Insiders are associated with low asset transfer in 86.0% of cases.
Personnel transfer	"	.01	In 36.9% of cases Outsiders are associated with high personnel transfer: Insiders are associated with low personnel transfer in 82.5% of cases.

The areas contributing most to the chi squared values for each item of resource transfer are: at the high level of personnel transfer where higher than expected levels of personnel transfer are associated with Outsiders and lower than expected transfers are associated with Insiders: at all levels of transfer of knowledge but in particular at the low level where lower than expected figures are associated with Outsiders and higher than expected are associated with Insiders: and at the high level of transfer of assets where higher than expected asset transfer is associated with Outsiders and lower than expected transfer is associated with Insiders. This is convincing evidence that there is a positive association between Outsiders and resource transfer and a negative association between Insiders and resource transfer. The positive association is particularly marked in terms of the transfer of knowledge and information.

Appendix 7.4 Insiders / Outsiders, key issues and autonomy

The thesis has shown that there are significant differences between the four acquisitions types of Haspeslagh and Jemison 's (1991) framework. However Appendix 7.3 shows that the relationship between insiders / outsiders and autonomy is complex. This appendix therefore considers autonomy against the other key issues of the thesis to see if other distinct acquisition styles exist. Using the three point autonomy scale of appendix 7.3, we tested whether the new boxes created in the resulting 3x2 matrix, namely box 2 and box 5 differed significantly from other boxes.

Box 2 comparison with other boxes on key issues

Box 2 Mean *St. error*	Issue	Box 1 Mean *St. error* Sig. level	Box 3 Mean *St. error* Sig. level	Box 4 Mean *St. error* Sig. level	Box 5 Mean *St. error* Sig. level	Box 6 Mean *St. error* Sig. level
	Success measures					
1.75 *.21*	Overall success	X	X	X	X	X
2.33 *.31*	Recovering the cost of capital	X	X	X	X	X
2.15 *.29*	Group profitability	X	X	X	X	X
2.15 *.19*	Achieving strategic objectives	X	1.55 *.17* .02	X	X	X
23.23 *4.12*	**Aggregate change**	X	X	X	X	X
	Seven dimensions of change					
.66 *.22*	Reduce debt	1.85 *.40* .01	X	1.40 *.26* .04	X	X
2.45 *.56*	Change product market focus	X	X	X	X	X
.90 *.34*	Improve quality	X	X	X	X	X
1.66 *.79*	Improve marketing	X	X	X	X	X
3.40 *.76*	Reduce production costs	X	X	X	X	X
4.08 *.77*	Change management	X	X	X	7.5 *.50* .007	X
2.92 *.60*	Improve financial controls	5.00 *.57* .03	X	X	5.75 *.25* .001	X

	Pre-acquisition financial health					
2.92 *.43*	Cashflow	X	X	X	X	X
2.53 *.38*	Gearing	X	X	X	X	X
1.61 *.14*	**Insider / Outsider**	X	X	X	X	X

The table shows that there are few significant differences between box 2 and the other boxes. Out of a total of 75 boxes, just 6 boxes show significant differences. This represents 8% of the total and, as these differences are fairly evenly spread, we would expect much of this result to be explained by chance. In two significant instances the standard errors of the mean suggest that there is some overlap[2] in the samples. Overall, there would appear to be insufficient grounds to regard this box separately.

Box 5 comparison with other boxes on key issues

Box 5 Mean *St. error*	Issue	Box 1 Mean *St. error* Significance level	Box 2 Mean *St. error* Significance level	Box 3 Mean *St. error* Significance level	Box 4 Mean *St. error* Significance level	Box 6 Mean *St. error* Significance level
2.00 *.31*	**Success measures** Overall success	X	X	X	X	X
2.20 *.58*	Recovering the cost of capital	X	X	X	X	X
2.00 *.54*	Group profitability	X	X	X	X	X
2.40 *.40*	Achieving strategic objectives	X	X	1.55 *.17* .04	X	X
31.00 *5.21*	**Aggregate change**	X	X	16.74 *2.7* .05	X	X
1.00 *.54*	**Seven dimensions of change** Reduce debt	X	X	X	X	X
3.50 *1.04*	Change product market focus	X	X	X	X	X
1.00 *.40*	Improve quality	X	X	X	X	X
2.80 *.86*	Improve marketing	X	X	.77 *.23* .004	X	X

[2] This has been established as two standard errors from the mean.

5.00 *1.08*	Reduce production costs	X	X	2.23 *.53* .04	X	X
7.50 *.50*	Change management	X	4.08 *.77* .007	2.65 **.64** .001	X	X
5.75 *.25*	Improve financial controls	X	2.92 *.60* .001	2.86 *.46* .000	X	X
3.20 *.91*	**Pre-acquisition financial health** Cashflow	X	X	X	X	X
2.60 *.98*	Gearing	X	X	X	X	X
1.60 *.24*	**Insider / Outsider**	X	X	X	X	X

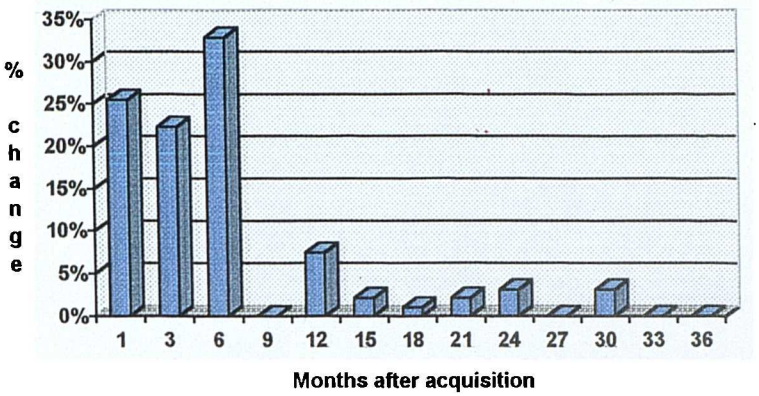
There are a number of significant differences with box 3, although three of these differences shows overlapping standard errors. Otherwise there are insufficient differences to suggest that box 5 should be regarded as a special case.

Overall, it would seem that the cases on the mid-point of the autonomy axis are generally consistent with our earlier analysis. Certainly box 2 behaves as one would expect in autonomy being a linear scale. However, box five is not entirely consistent, exhibiting some anomalous behaviour. This suggests that whilst autonomy behaves predictably with low levels of resource transfer, in some instances, where there is medium autonomy, there are some unusual characteristics. For this reason, we may conclude that the autonomy dimension is rather more complex than is often acknowledged and calls for further research attention.

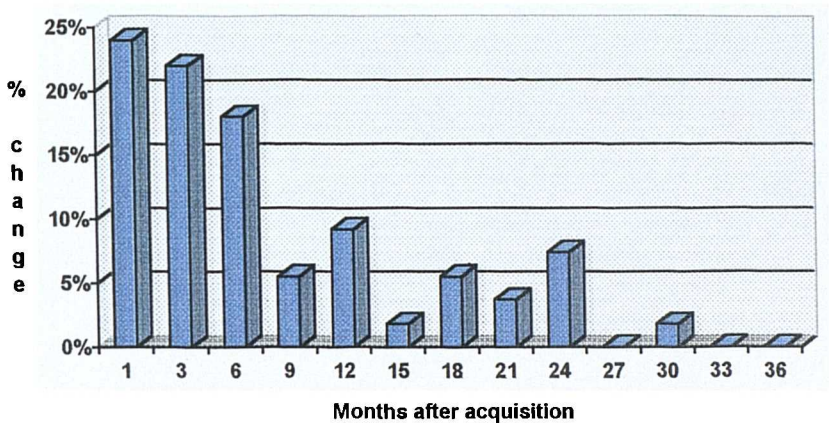
Appendix for Chapter 8

Appendix 8.1 Gabarro's measures in time array

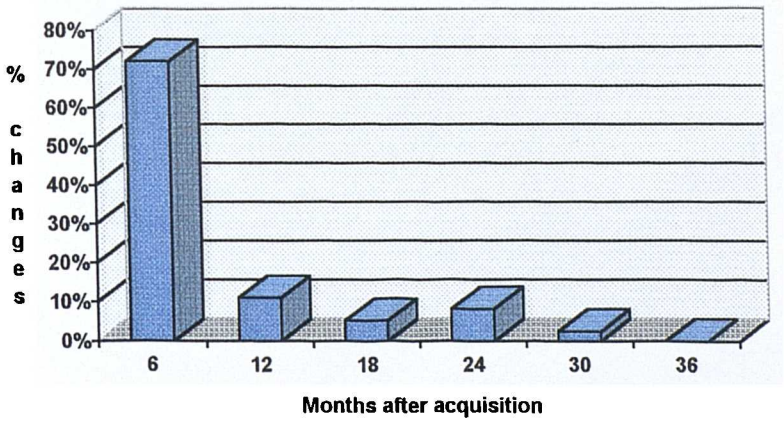
- Percentage of weighted structural changes



- Percentage of personnel changes



- Combined personnel and structural changes by six month period



Appendix 8.2 Levene test for equality of variances and t - tests

- Insiders/Outsiders by time between acquisition and questionnaire return (acquisitions 12 - 24 months)

Variable	Number of Cases	Mean	SD	SE of Mean
Months				
Outsider	13	15.8115	4.009	1.112
Insider	12	15.3681	3.619	1.045

Mean Difference = .4434

Levene's Test for Equality of Variances: F= .791 P= .383

t-test for Equality of Means					95%
Variances	t-value	df	2-Tail Sig	SE of Diff	CI for Diff
Equal	.29	23	.775	1.532	(-2.727, 3.614)
Unequal	.29	22.99	.774	1.526	(-2.714, 3.600)

Appendix 8.3 Levene test for equality of variances and t - tests

- Insiders/Outsiders by time between acquisition and questionnaire return (acquisitions of 33+ months)

Variable	Number of Cases	Mean	SD	SE of Mean
Months				
Outsider	5	39.7582	5.178	2.316
Insider	7	38.1146	7.082	2.677

Mean Difference = 1.6436

Levene's Test for Equality of Variances: F= .023 P= .882

t-test for Equality of Means					95%
Variances	t-value	df	2-Tail Sig	SE of Diff	CI for Diff
Equal	.44	10	.670	3.741	(-6.694, 9.981)
Unequal	.46	9.97	.652	3.539	(-6.245, 9.532)

Appendix 8.4 Comparison of Industry Outsiders

- Outsiders from unrelated and related industries in terms of aggregate change (Acquisitions over 1 yr)

Variable	Number of Cases	Mean	SD	SE of Mean
Related Industry	8	26.7500	13.382	4.731
Unrelated Industry	2	25.0000	9.899	7.000

Mean Difference = 1.7500

Levene's Test for Equality of Variances: F= 1.938 P= .201

t-test for Equality of Means					95%
Variances	t-value	df	2-Tail Sig	SE of Diff	CI for Diff
Equal	.17	8	.869	10.276	(-21.952, 25.452)
Unequal	.21	2.06	.855	8.449	(-34.603, 38.103)

Appendix 8.5 Time differences between acquisition types (12 - 36 months[1])

Mean Rank	Cases	
6.50	6	Holding
14.11	9	Preservation
16.14	7	Absorption
18.00	4	Symbiotic
	--	
	26	Total

				Corrected for ties	
Chi-Square	D.F.	Significance	Chi-Square	D.F.	Significance
7.3035	3	.0628	7.3035	3	.0628

Upon further testing we find that the differnce in the average timing of change between Holding and Symbiotic acquisitions, is robust as it is present at the aggregate and functional level. The relationship between other acquisition types is less clear.

[1] There is no significant difference between acquisition type and time elapsed for these acquisitions.

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