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Living Happily Ever After . . . with an Acquisition

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Executive Summary

Research evidence points to numerous unsatisfactory outcomes of mergers and acquisitions, including high failure rates, sinking profits, and various negative human resource impacts. Managers looking for advice to increase success, however, will find contradictory prescriptions in the literature. For example, some researchers conclude that unrelated or conglomerate types of acquisitions perform poorly, but others report that conglomerate mergers outperform related mergers. Based on a survey of large public Canadian companies that were relatively experienced in making and managing acquisitions, this study identifies the prescriptions that are actually associated with success, and it provides three critical lessons for managers: the need to manage risk, to manage impulsiveness, and to pay attention to the human dimension. It also reduces the vast number of recommendations about managing the human dimension to a few critical ones.

- While firms often seek to enhance their competitive strategy by expanding into new fields, every step away from familiar territory adds risk to the acquisition venture. Compounding risk by targeting a company in a different market and a different business and of a radically different size all at once may guarantee failure.

- The risk of the unrelated acquisition can be somewhat mitigated if there is more autonomy in control and integration after the acquisition. Conversely, in this study less autonomy increased the success rate of the related acquisition. These findings support other researchers' advice to exercise only the minimum necessary control over an acquisition.

- Respondents in this study frequently reported that in their haste to conclude the deal, they failed to appraise the business adequately. The survey revealed that companies paid less for successful acquisitions, perhaps because they negotiated more cautiously and wisely. A high price was associated with time pressures in negotiations.

- In the transition and integration stages, the most important managerial actions revealed in the study were to promote a vision of the merger and set clear, specific goals for it. The CEO is the best person to sell them: in this study success was correlated with the CEO's visiting various sites to talk to employees.

- If no change in personnel is planned, this should be announced: such a strategy worked for companies in this study.

- Companies should consider adopting the policies and structures of the acquired company, where these are better, and they should involve people from all levels of both companies in decisions. This would demonstrate flexibility and decrease the common 'we/they' mentality.

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About the Author

Carol A. Beatty is Professor and Director, Industrial Relations Centre/School of Industrial Relations, Queen's University.

- The author concludes (albeit with a major caveat) that by paying attention to the most important success factors at all three stages of an acquisition, companies will be able to predict the outcome of approximately 85 percent of their acquisitions. These factors include the type and size of the acquisition, a lack of haste in negotiations, lower price, openness of information, selling of the acquisition vision and goals by the CEO, and lack of terminations and salary cuts.

Introduction

Looking back on his experiences with two recent acquisitions, Phil Allison, Chief Executive Officer of a large transportation company, struggled to explain why one was so successful and the other a dismal failure.

> I guess the one was successful because it was in the same core business as we are, and we let it operate with a high degree of independence. There were those who advocated immediate integration, but that increases risk because the actual basis for synergy between the two firms is incorrectly identified. That is not to say that the eventual goal is not towards greater integration. Initially, we demanded that our minimum standards regarding service standards must be met, but there's a very precise balancing act between integration and autonomy.
>
> The other one was a vertical expansion, acquired because it was felt that a presence at the retail level would be beneficial. This belief probably influenced the way the project was analyzed, that is, interpretation of the figures was used to support this decision as opposed to being used as an objective measurement in assessing the viability of the venture. There was one blindly determined champion of the acquisition who carried the deal forward. I think there were three main reasons for the failure—the absence of a common vision, the vast differences between the two cultures, and the disparity in ethical practices between the two firms. Dealings with this company proved to be disastrous, to the extent that we have sued the owners for fraud.

Phil is no novice at acquisitions, his company having made many in the last ten years. And although the pace of acquisitions has become less frenzied recently, acquisitions remain very much a part of his company's options for growth and restructuring. So Phil considers synthesizing the lessons of past acquisitions an important managerial task. It is also a vital one to business researchers.

Research evidence points to numerous unsatisfactory outcomes of mergers and acquisitions, including

- high failure rates (Lefkoe 1987; Knowles 1988),
- a high divestiture rate (Porter 1987),
- low returns to investing shareholders and companies (Jensen and Ruback 1983),
- sinking profits after acquisition (Ravenscraft and Scherer 1987),
- high rates of unwanted turnover (Walsh 1989), and
- various negative human resource impacts (Marks and Mirvis 1985; Buono and Bowditch 1989).

Managers looking for advice to increase merger success are confronted with contradictory prescriptions.

Managers looking for advice to increase success, however, are confronted with contradictory prescriptions. For example, one school of thought concludes that unrelated or conglomerate types of acquisitions perform poorly (Rumelt 1974; Porter 1987; Bettis 1981). But others report that conglomerate mergers outperform related mergers (Elgers and Clark 1980; Chatterjee 1986). Haspeslagh and Jemison (1991) call this 'the elusive strategy performance linkage.'

What the study reported here attempted to do was to identify those prescriptions that were actually associated with success in a sample of large public companies with active acquisitions programs. From their stories emerge three critical lessons for managers which will be described in some detail below. These lessons are

- the need to manage risk,
- the need to manage impulsiveness during negotiations, and
- the need for attention to the human dimension.

The Study

Senior executives of approximately 200 Canadian companies identified by the annual data cards of the Financial Post as active acquisitors were contacted for possible cooperation in this study. These companies constituted the entire population of Canadian public companies in this data base meeting the research parameters of more than two acquisitions within the previous ten years. The precondition of more than two acquisitions was set for two reasons.

First, only those companies relatively experienced in making and managing acquisitions could provide a balanced perspective on the issues. Second, more than two were required by the research parameters, as the survey asked managers to compare their most successful and least successful acquisitions. Of the 200, 157 executives agreed to consider the survey, and of these replies were received from 49, or a 31 percent response rate. Those who declined participation after a second contact (34) did so for various reasons, including time pressures, departure of relevant managers, lack of documentation, acquisition of assets only, and mistakes in the original Financial Post information, which meant they did not fit the parameters of the research. Respondents did not differ from nonrespondents in size or number of acquisitions made (as estimated from the data cards). There was, however, a higher response rate from the companies in the manufacturing sector (39 percent of the sample) than in the resources (32.5 percent) or service sectors (28.5 percent). From estimates of activity during the time period of the research, it appears that the services sector was underrepresented in the study, and results may not be as applicable to this type of acquisition.

Measures

Respondents were asked to describe their most successful and their least successful acquisitions using a uniform set of questions and rating scales. The survey was divided into three sections: an introduction dealing with the company acquisition program as a whole, questions about the three general stages of the successful acquisition—acquisition strategy, negotiations, and integration—and finally the same questions about the unsuccessful acquisition. All questions were designed for the research and measured those important merger and acquisition issues identified in the literature. Specific financial records were not used to determine performance outcomes because respondents had already classified their best and worst acquisitions in the survey. This measurement strategy was also pursued because of the difficulty in measuring postmerger performance of an acquisition where financial reports are often partially or totally consolidated (Walsh 1989). The respondents' classification was cross-checked against a question that asked respondents to rate their satisfaction level with all of their previous acquisitions. If the satisfaction level did not match the categorization of successful or unsuccessful, the acquisition was either reclassified or the data discarded. Some companies did not fill out the least successful acquisition section because they were satisfied with all of their acquisitions in the last ten years. Others responded only about the least successful, and so the final analysis included 48 successful and 38 unsuccessful cases.

After statistical analysis was complete, interviews were sought with managers of several of the responding companies where both successful and unsuccessful acquisitions were quite similar in terms of relative size and type. It was hoped that by comparing the two, managers could differentiate crucial success factors from coincidental ones and provide in-depth answers to puzzling findings.

The average company in the sample had made five acquisitions in the past ten years, while the total number of acquisitions made by all 49 companies was 234. Of these only 29, or 12.4 percent, had been totally divested in the time period measured. Most acquisitions were made within the home country, but 36 percent of the target companies were US-based and 6 percent outside of North America. Overall satisfaction with the acquisitions was high, with 62 percent of the 234 rated as satisfactory or very satisfactory. Nonetheless, comparison of the most and least successful acquisitions clearly highlighted three critical areas for management attention.

Lesson One: The Need to Manage Risk in Planning Acquisition Strategy

The Type of Acquisition and the Chances of Success

While firms often seek to enhance their competitive position by expanding into new fields, every step away from their familiar territory adds a degree of risk to the acquisition venture. When investigating and selecting potential targets, companies should realize that compounding risk by targeting a company in a different market, a different business, and of a radically different size all at once may make it impossible to attain positive results.

Every step away from familiar territory adds a degree of risk.

For example, some studies have concluded that the risk of failure increases if the acquisition is ‘unrelated,’ that is, in a different business from the acquisitor. Kitching’s study (1967) concluded that although conglomerate acquisitions were the most common in that era, horizontal acquisitions were the most successful. Porter’s study (1987) showed that three out of four unrelated acquisitions failed, and others have reached similar conclusions (Rumelt 1986; Dundas and Richardson 1982; Kitching 1967; Ravenscraft and Schere 1987). However, Shelton (1988) compared relatedness categories to merger gains and found no conclusive results. Similarly, Montgomery and Wilson (1986) found no evidence that unrelated acquisitions were more likely to be divested than related. On the contrary, some have found that unrelated or conglomerate mergers actually offered superior returns (Elgers and Clark 1980; Chatterjee 1986). Furthermore, the success of different types of acquisitions may well be affected by such factors as the degree of autonomy granted after acquisition (Datta and Grant 1990; McCann and Gilkey 1988).

To clarify this question, respondents in this study were asked to classify their most successful and least successful acquisitions using a modified version of Shelton’s typology, as shown in table 1. It was hypothesized that risk would increase with each degree of difference from the acquisitor’s core business and market.

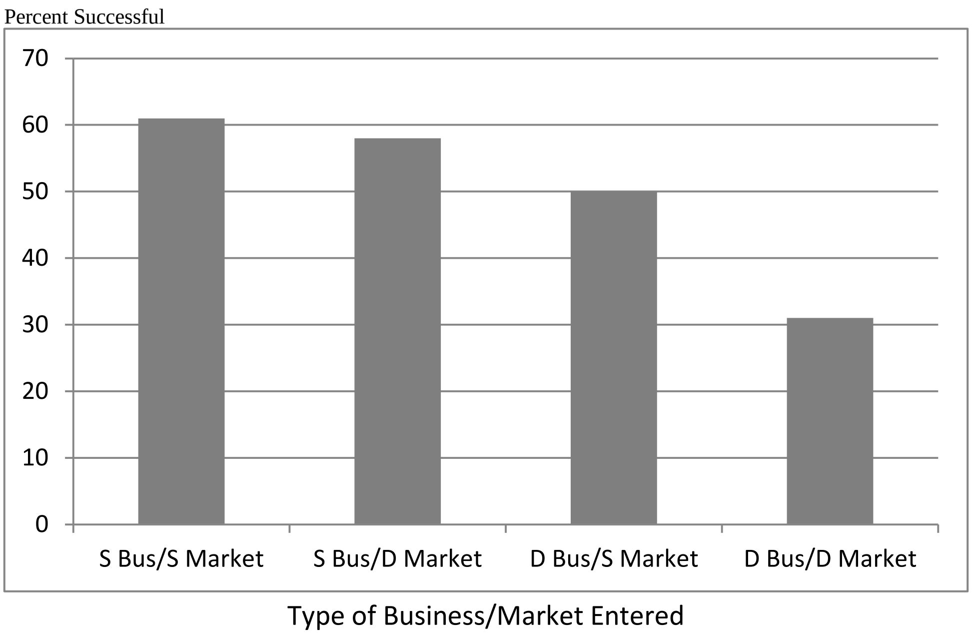
As hypothesized, the study found that horizontal acquisitions did prove more successful than the others and that those in a different business and market from the acquisitor were the least successful. Figure 1 shows the percentage of successful acquisitions in each of the four acquisition categories.

Horizontal acquisitions did prove more successful.

Table 1
Classification of Acquisition Types

	Same Business	Different Business
Same Market	Horizontal Low risk	Vertical or Unrelated Medium risk
Different Market	Market Extension Mediumrisk	Vertical or Unrelated High risk

Figure 1
Type of Business and Market Entered Versus Success



S=Same D=Different

The chances of success decreased with successive degrees of difference. Fully 61 percent of the acquisitions in the same business and same market as the acquisitor (30/49) were successful as compared to only 31 percent of those in both a different business and a different market (4/13). Obviously, not all risk can or should be avoided, and if managed carefully, diversification into new businesses and new markets can revitalize a firm. As one executive from a manufacturing firm commented:

> The acquisition put us in a better position to deal with major global changes taking place in the industry. It also prepared us for free trade with the United States and Europe.

Nevertheless, horizontal acquisitions were both the most common and the most successful in this study. Horizontal acquisitions are less risky. They can decrease the number of competitors by removing one from the field of competition, can increase economies of scale, and can provide a platform for entering international competition.

Product extensions were slightly more risky, but some of the companies explained this strategy in the context of globalization. For example, an executive of a textile firm commented that its market extension into the United States provided access to wider, and indeed international, markets in a product area with which the firm was familiar. The experience prepared the company to deal with free trade.

But not all companies had a positive experience with market extensions. A senior manager from a steel fabricator described a failed expansion into the US Midwest:

> We learned we did not understand the USA market and that it functioned very differently to that in Canada. Many market-related assumptions were in error. . . . It was closed in 1988.

So entering new markets by acquisition, even in the same business can be tricky. Many companies commented that they got into trouble when they assumed the US markets to be identical to the Canadian.

A chi-square test for the four categories of acquisitions versus success, as shown above, did not reach significance. However, when only two categories were used—same business versus different business—the test reached significance, as shown in table 2. This indicates that entering a different business entails significantly more risk than entering a different market. The present study thus confirmed previous findings that showed higher failure rates for unrelated as opposed to related types of acquisitions. Managing an unrelated acquisition requires different background experience and different assumptions. The natural temptation is to apply the wisdom of the acquisitor to the new acquisition, often with counterproductive results.

Entering a different business entails significantly more risk than entering a different market.

Table 2
Same Versus Different Business and Success

	Successful	Unsuccessful
Same Business	42	25
Different Business	6	11
Total*	48	36

Chi square = 4.15 Significance = .042

* Numbers do not reflect total cases because of non-response or 'other' response to the question.

Size of the Acquisition

There is debate among the experts about the optimal size of an acquisition. For example, Kusewitt (1985) concluded that large acquisitions were risky, a case of 'biting off more than you can chew' and that the optimal size of an acquisition's assets was around 5 percent. But Biggadike (1979) found that large acquisitions outperformed small ones. Kitching (1967) warned against very small acquisitions and found that failure resulted in 84 percent of the cases where the target company's revenues were less than 2 percent of the parent's. Others have also found that small-scale entries are riskier (Gluck 1979; Terry 1982).

In this study, acquisitors compared their total annual revenues with those of the acquisition, as an approximate measure of comparative size. The results in table 3 show that the chances of success were dramatically less if the target's revenues were less than 10 percent

Very large acquisitions had a higher success rate than medium-sized acquisitions.

of the acquisitor's.[1] Acquisitions below this cutoff point were unsuccessful in 71 percent of the cases. However, very large acquisitions (above 100 percent of the acquiring firm's revenues) had a higher success rate than medium-sized acquisitions, defined as those reporting from 11 to 100 percent of the acquisitor's revenues. Their average success rates were 78 and 71 percent respectively. Therefore the present research supports previous findings of Kitching (1967) and Terry (1982), but not those of Kusewitt (1985).

Table 3
Comparative Size of Acquisition Revenues Compared to Acquisitor's Revenues

	Successful	Unsuccessful	Totals	Percent Successful
Below 10%	10	24	34	29
Above 10%	38	14	52	73

Chi square = 15.16
Significance - .0001

The Performance of Small Acquisitions

Small size increased the risk of acquisition failure, a finding that might not be intuitively obvious to most managers. Furthermore, the small acquisition was often pursued as a tentative first step into a new business or new market, thus compounding the risk of the venture. The following company's motivation for making a small acquisition was a common one:

> We wished to make a small acquisition to provide a window to enable us to become familiar with this business/market, and then expand once that knowledge was obtained. The technology associated with the process and the existing customer base were the two reasons for acquiring this company.

But as it turned out, this small acquisition made in both a new business and a new market represented a triple novelty that could not be easily assimilated:

> The equipment was not state of the art and the management had little technical knowledge. . . . We jumped at the first opportunity to get the window—better to have done some homework, move cautiously, look at the alternatives. We used a 'ready-fire-aim' approach to selecting this company. . . . Inadequate knowledge of the business led to poor interpretation of the financial forecasts and assumptions. . . . We still operate this division; it is struggling financially, but slowly finding its way strategically within the industry.

Perhaps small acquisitions showed such poor results in this sample precisely because they were often unrelated as well. The question of whether the success rate for smaller, unrelated acquisitions (different business entered) would differ from that of larger unrelated ones naturally raised itself. In addition, which was riskier, small size or a different business? To answer these questions, further analysis was performed.

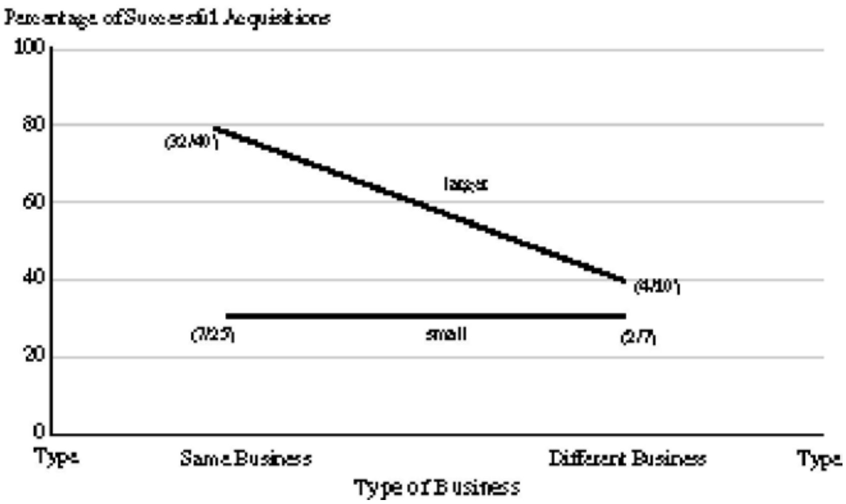
1 As shown in table 3, the chi-square test of difference between those above 10 percent and those below 10 percent versus success was significant at the .0001 level.

Related vs. Unrelated Acquisitions

Figure 2 plots the success rate of small acquisitions (target revenues are below 10 percent of acquisitor's) versus larger ones (10 percent and above) under two different scenarios, namely in the same business as the acquisitor and in a different business. The success rate of the very small acquisitions stayed almost constant (approximately 28 percent) no matter whether related or unrelated. But the picture changed for the larger ones. Here the success rate dropped from 80 percent for related to 40 percent for unrelated. As such, small size seemed to be more of a risk factor than unrelatedness.

Small size seemed to be more of a risk factor than unrelatedness.

Figure 2
The Interaction of Size and Type of Business



Explaining Poor Performance

Why was the performance of the small acquisition so dismal? Interviews with managers of companies that had made both successful and unsuccessful small acquisitions shed further light on the reasons for the high failure rate. For one thing, managers admitted they approached them in a more cavalier manner. A banker admitted of a failed horizontal acquisition in a different country:

> In retrospect it sounds like we didn't have a good enough understanding of the volatility of the environment and the way business was conducted. We acquired it because X (the previous owner) came to us. We were heavily involved in this country, its future looked good, banking was successful there at the time, so all the factors looked right.

An often-cited reason for failure was vendor dishonesty or the different ethical standards pursued by a large public firm as compared to a small private one. A food processing company cited numerous instances of questionable practices discovered in the acquisition after purchase.

> Enormous problems surfaced after the deal that suggested the seller had manipulated and disguised conditions in what appeared to be a completely unethical way of doing business. We had made the erroneous assumption that all business peers conducted business from the same ethical standpoint as we did. . . . For example, water bills were comparable to what a residential home might incur. The most obvious explanation regarding this meter by-pass was that someone in the Water Department had been bribed.

Other reasons given for failure were the incompatibility of a small, entrepreneurial company with a larger, more bureaucratic one, lack of adequate financial returns for the effort expended, and lack of attention to due diligence.

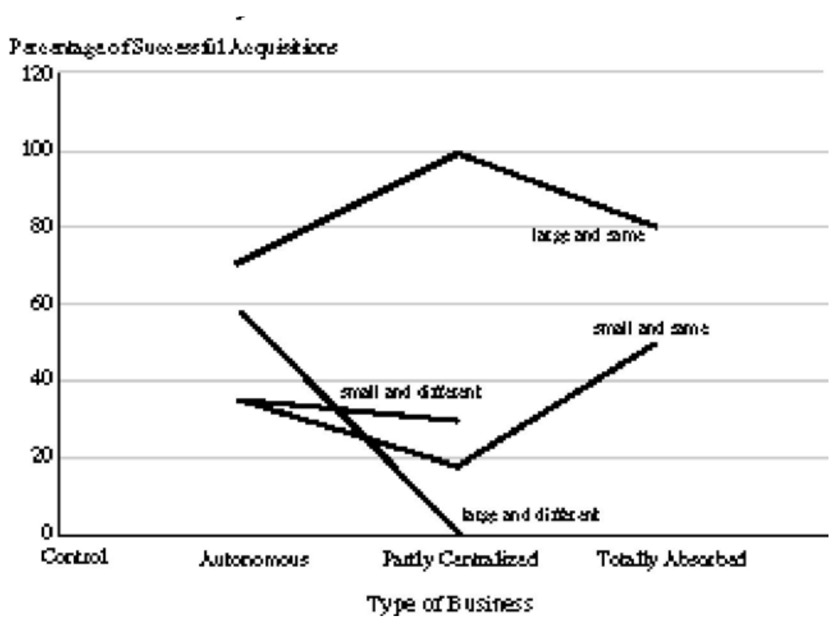
Control and Risk

Haspeslagh and Jemison (1991) categorized four approaches to acquisition control, ranging from total absorption to merely holding, according to the levels of need for organizational autonomy and for strategic interdependence. The present study measured only three degrees of control, as holding companies were not included in the sample. In unrelated acquisitions, logic would dictate that the need for autonomy is higher and the need for strategic interdependence lower than in related acquisitions. This may be especially true of small unrelated acquisitions. This study produced evidence that the risk of the unrelated acquisition can be somewhat mitigated by more autonomy in postacquisition control and integration. The converse appeared to be true of the related acquisition: less autonomy increased the success rate.

As shown in figure 3, small acquisitions in a different business had a slightly higher success rate when left to operate autonomously, whereas the success rate for those in the same business was higher if absorbed. Partial absorption resulted in a lower success rate for both types. However, the numbers of acquisitions in each of these categories is small, and so firm conclusions cannot be made. Relationships were somewhat similar for larger acquisitions. Larger ones in the same business had a higher success rate if they were totally absorbed than if autonomous but the highest success rate was for those partially centralized. Those in a different business again had a higher success rate if they were autonomous. It must be reiterated that the small number of cases does not permit strong conclusions, but this interaction is an important one to explore in future research. Nonetheless, these findings lend support to McCann and Gilkey's (1988) advice to exercise only the minimum necessary control over an acquisition.

Findings lend support to advice to exercise only the minimum necessary control over an acquisition.

Figure 3
The Interaction of Size, Relatedness and Control



Lesson Two: The Need to Manage Impulsiveness in Negotiations

> We did not adequately assess the condition of the equipment or the skills of the key employees. . . . Inadequate appraisal of the business and its capital led to overpayment.

Time and again, executives echoed this theme—during the haste to conclude a deal, they brushed over vital information which might have saved them money and pain in the long run. Previous researchers have identified several negative results of rushed negotiations and inadequate attention to fact gathering. The lack of proper due diligence (Henderson 1989) and the size of the premium paid (McLean 1985; Moynihan 1989) have been found to increase the likelihood of acquisition failure. Haspeslagh and Jemison (1991) characterized the acquisition process as sporadic, opportunistic, rapid, risky, and based on limited access to information. McCann and Gilkey (1988), among others, have identified the conduct of the initial approach as an important consideration, with hostile bids more likely to cause subsequent failure. Various other impediments have been noted by consultants and business writers, namely competition for the target company, government interference, trouble with financing or legal arrangements, defence mechanisms adopted by the target company, and getting carried away and paying too much. Although most of these warnings make sense, little systematic empirical research has examined whether or not they actually influence acquisitions outcomes.

Price of the Acquisition

In the present study, executives were asked to rate how strongly present each of the above factors were in both their successful and unsuccessful acquisitions. The findings showed that only time factors and the price paid were related to success. Companies were asked two questions about the price they paid for the acquisition. The first was about the perceived value for the price, whether it was a 'bargain,' 'fair value,' or 'too expensive.' Second, they provided an assessment of its price, as reflected in its asset value. The results are shown in table 4.

Table 4
Acquisition Success Relative to Price

	Successful	Unsuccessful	Totals	Percent Successful
Below asset value	15	4	19	80
Equal to asset value	14	13	27	52
1–2 times asset value	16	15	31	52
More than 2 times asset value	3	6	9	33
	48	38	86	

Companies paid less for successful acquisitions, both in terms of the perceived price and the actual price, as measured by the asset value of the acquisition. The perceived price correlated highly with success (.75), whereas the actual price had a lower, but still significant, correlation with success (.24, .012 significance level). One explanation could be that too high a price increased risk or decreased the level of financial performance. Another could be that in retrospect, any failed acquisition is likely to be branded 'too expensive' no matter what its actual price.

Nonetheless, of the 19 acquisitions obtained below asset value, 80 percent were subsequent successes, as compared to only 33 percent of those purchased for more than twice asset value. Why did companies pay relatively less for their successful acquisitions? Perhaps they negotiated more cautiously and wisely. Another possibility is that they bought poor performers and improved them after takeover. But the correlation between performance before acquisition and the price paid in terms of asset value was low (.11, not significant), meaning that poor performers were not significantly less expensive to acquire than average or good performers. Acquisitors, then, were not paying prices commensurate with prior acquisition performance.

Further analysis revealed that to a certain extent, the price of an acquisition varied with the type of company acquired and the industry sector, acquisitions in manufacturing being the least expensive, those in the service industry being the most expensive, and those in resources being in between. Acquisitors also paid less for targets in a different business or market from themselves, but more for smaller ones, a bad bargain considering the average performance outcome of small acquisitions in this sample.

Time Pressures in Negotiations

A high price was also associated with time pressures in negotiations. Companies reporting that they did not have 'enough time for an adequate due diligence investigation' and that they 'got carried away and paid too much' were given a high score on a 'haste' scale. Haste was highly correlated with both perceived price (.48, p=.000) and acquisition failure (.50, p=.000). This means that when less time was spent in careful assessment of information about the potential acquisition, the companies were more likely to pay a higher price and to suffer subsequent disappointment and failure. Haste and inadequate assessment were more likely when the target was a relatively small company, thus providing one more possible explanation why small acquisitions were more failure-prone.

When less time was spent in careful assessment of information, the companies were more likely to pay a higher price and to suffer disappointment and failure.

For instance, several companies admitted that they had not taken sufficient time or care in conducting the due diligence process. One retailer commented that the acquisition's financial statements had been 'doctored,' but that this was discovered too late. Another, in the food industry, concluded that the facilities acquired were not as good as had been thought and that the vendors had let the business deteriorate significantly during the negotiations and closing process.

Lesson Three: Attention to the Human Dimension

The transition and integration stages of an acquisition may well be the most frustrating, least exciting, and most neglected (McCann and Gilkey 1988) and yet the most important in creating value (Haspeslagh and Jemison 1991). It is here that attention to the human dimension of an acquisition becomes crucial and can affect success. For example, Schweiger and Weber (1989) reported that the most important factors in evaluating potential acquisitions were the talent and philosophy of the top and middle managers. Yet unanticipated turnover of these very valuable employees is often high during an acquisition (Walsh 1989; Walsh and Elwood 1991), thereby jeopardizing success. Turnover has also been found to be higher in cases where managers experienced loss of autonomy and control (Hayes and Hoag 1974; Bohl 1989). Even if employees remain, many can become 'psychological quits' (McCann and Gilkey 1988). This is especially true where much downsizing takes place after acquisition (Murray 1987; Bohl 1989), yet some researchers have found that downsizing is common in up to 75 percent of acquisitions (Schweiger and Weber 1989). These are some of the reasons why Bohl (1989) advocates an important role for the human resources function during premerger planning, and indeed he found fewer post-event problems in companies that involved this function.

Fewer postmerger problems were found in companies that involved the HR function.

Prescriptions for Managing the Human Dimension

Advice about how to manage human issues during integration has not been lacking, yet there is little systematic empirical research to prove the efficacy of various suggestions. Recommendations include

- communicating a clear vision and improving incentives and benefits (Hunt et al. 1987);
- providing training for employees (Kelly 1989);
- making swift personnel decisions and promoting participation (Burns 1989);
- identifying a transition team and developing objectives (Achtmeyer and Daniell 1988);
- establishing a good communications plan (Doherty 1988; Joslin 1990; Marks 1988);
- using task forces (Bone 1988);
- retaining the acquisition's name (Gordon 1987);
- initiating top management visits to the field (Gordon 1987); and
- involving CEO leadership (Jones 1987).

With respect to downsizing, advice ranges from keeping it to a minimum and taking an evolutionary approach (Shrivastava 1986; McCann and Gilkey 1988) to getting radical change over quickly (Buono and Bowditch 1989). In addition, companies are admonished to avoid the 'merger syndrome' (Marks and Mirvis 1985), which increases rumours, resistance, and a 'we/they' mentality and which causes higher turnover, absenteeism, stress and other negative employee reactions. Finally, cultural incompatibility is widely accused of causing acquisition failure (McCann and Gilkey 1988; Sheehy 1988).

The sheer number of these suggestions would confuse most companies faced with managing integration. Because there is so much extra work involved in an acquisition, it is important not to waste effort on time-consuming but unproductive activities; therefore, separating the wheat from the chaff at the integration stage was one of the main purposes of the present research.

Successful Management Practices

The respondents in this study were asked to rate which of over thirty recommended human resource management practices were used in each of the successful and unsuccessful acquisitions, on a three-point scale ranging from 'used to a great extent' to 'not used at all.' The practices which were correlated with success are shown in table 5.

Table 5
Managerial Actions Associated with Successful Acquisitions

Action	Correlation	Significance Level
VISION of the merger sold throughout company	.29	.003
We set clear specific GOALS for the merger	.23	.015
At first we announced there would be NOCHANGE	.21	.026
We adopted the target's POLICIES or structures where they were better	.19	.039
People from all levels from both companies PARTICIPATED in decisions	.19	.041
CEO went on field trips	.18	.048
RITUALS and ceremonies were used	.18	.048

The most important managerial actions revealed in this study were to promote a vision of the merger and to set clear, specific goals for it.

Vision and Goals

Clearly the most important managerial actions revealed in this study were to promote a vision of the merger and to set clear, specific goals for it. The value of goal-setting and vision have been demonstrated in many settings and situations; now there is evidence for their importance in merger situations as well. The problem for many companies is that they are not certain of the vision or goals, not having had a clear strategy for the acquisition in the first place. If they do exist, the CEO is the best person to sell them, and in this study success was correlated with the CEO's going around to various sites to talk to employees.

A No-Change Announcement

Some experts advise against announcing there will be 'no change' right after a merger, but it was a successful strategy for the companies in this study. Presumably it could backfire if radical changes in personnel followed such an announcement, but if changes are not planned, the announcement could go a long way to calming employees' fears.

Adopting the Acquired Company's Policies or Structures

Another positive action was to adopt the acquired company's policies or structures where they were better. This demonstrates flexibility and can decrease the 'we/they' mentality that is so common in mergers. Getting people from both companies to participate in decisions can have the same effect. It is worth noting that most of the practices surveyed had no significant correlations with acquisition success. For interested readers, the appendix contains a full list of these practices.

Unsuccessful Management Practices

There were also some recommendations from various sources that were negatively correlated with success in this study. They are shown in table 6.

Table 6
Managerial Actions Associated with Unsuccessful Acquisitions

Action	Correlation	Significance Level
We had to terminate some who did NOTCOOPERATE	-.14	.003
NEWNAME for the acquired company	-.14	.099
We CUT back on the target's 'rich' salary and/or benefit package	-.13	.111
People identified for quick TERMINATION	-.13	.112

Although the above correlations are not high, they are muted to some extent because only three levels of the actions and two levels of success were measured. Furthermore, by the time an acquisition reaches the integration stage, it may not have a fighting chance because of decisions at previous stages. In any case, the data show that companies should be cautious about terminating people or cutting back salaries and benefits during an acquisition. This advice runs counter to much that has been written about how to capture value from an acquisition by rationalizing the workforce. This observation is all the more noteworthy as workforce reductions are often advocated to gain synergies from horizontal acquisitions, the most prevalent kind in this study. It also lends support to those who propose a linkage between rapid and radical downsizing and acquisition failure (Shrivastava 1986; McCann and Gilkey 1988; Bohl 1989).

Companies should be cautious about terminating people or cutting back salaries and benefits during an acquisition.

Distinguishing between Successful and Unsuccessful Acquisitions

How confident can companies be that by following the three lessons of this study their acquisitions will meet with success? To answer this question, a 'discriminant analysis' of the data was performed to identify which variables most differentiated the successful from the unsuccessful acquisitions. The output of the analysis is a set of variables which can be used as a model of success.

To perform this analysis, some of the individual items pertaining to managing the human dimension were combined into the following scales for this analysis:

1 Managerial action (composed of vision, goals, participation, adoption of better policies, CEO field visits, and rituals, as described above).
2 Downsizing (composed of the two termination questions and the cutback of salaries and benefits, as described above).

In addition, an employee-reaction scale composed of measures of turnover, absenteeism, and stress and an information-handling scale composed of two items measuring the no-change announcement and openness of information were included, as they were highly correlated with success.

The factors which predicted acquisition success in this study were, in order of significance,

1 size of the acquisition (larger),
2 managerial action,
3 lack of terminations and salary cuts,
4 lower price (in terms of asset value),
5 lack of haste in negotiations,
6 type of acquisition (same business and market),
7 employee reactions (lower level of negative reactions),
8 information (open, no-change announcement).

This model predicted success in approximately 85 percent of the cases. In other words, by knowing what choices companies made on these variables, predictions could be made with 85 percent accuracy about the success of their acquisitions. It can also be inferred that by following the pattern of the successful acquisitions, companies can predict future outcomes with 85 percent accuracy as well. On the other hand, the limited number of companies sampled does not permit a high level of statistical confidence in the accuracy of such a prediction. A larger-scale study would be necessary to confirm these results.

Selecting the Acquisition

Concerning the investigation and selection stage of an acquisition, this research provides strong support for previous findings of Kitching (1967) and, later, Gluck (1979) and Terry (1982) that the small acquisition is a risky investment. It contradicts others who have warned against large ones (Kusewitt 1985). However, the findings show that size interacts in a complex manner with subsequent control scenarios. The success rate of very small acquisitions in a different business was only slightly higher under an autonomous control scenario, whereas those in the same business were more successful if absorbed. The picture for larger acquisitions was somewhat similar. Larger related acquisitions had a high success rate if they were partially centralized or totally absorbed, whereas larger unrelated acquisitions were more successful if they were left to operate autonomously (although their success rate was still a relatively low 50 percent). Partial centralization appeared to be a good strategy for large related acquisitions, but did not work at all for unrelated ones.

The research also gives further evidence of the lower success rates of ‘unrelated’ or ‘conglomerate’ acquisitions, while contributing the finding that success rates decline with increasing degrees of distance from the acquisitor’s core business and market. Entering a new market or entering a new business adds a degree of risk. But new businesses are riskier than new markets. Entering both at the same time increases risk substantially.

The Negotiations

A higher price and haste in negotiations were associated with higher levels of failure.

As for the negotiations stage, many of the problems stated to be important determinants of success in the literature were not supported by this study. Respondents reported experiencing few of these problems. This could mean either that the problems suggested as crucial in the literature do not occur often or with sufficient severity, or that the respondents may have downplayed them. Nevertheless, a higher price and haste in negotiations were associated with higher levels of failure. In this study the price of an acquisition was not related to its prior performance. However, the perceived price was strongly related to haste in negotiations. The less time there was for due diligence and the more companies got ‘carried away,’ the higher the perceived price and the lower the success rate. In addition, price was moderately related to the industry sector and size of the acquisition (smaller being relatively more expensive) and the type of business/market entered (the more ‘different’ from the acquisitor, the lower the perceived price).

Human Resource Strategies

One of the major contributions of this study was to reduce the vast number of recommendations about managing the human dimension in acquisitions to a few crucial ones. The evidence showed that companies should communicate the vision and goals for the merger as quickly as possible. The best person to sell them is the CEO, especially through a field trip. Furthermore, if no change in personnel is planned, this should be announced. Companies should consider adopting the policies and structures of the acquired company where these are better, and should involve people from all levels of both companies in decisions.

The best person to sell the vision and goals of the merger is the CEO.

On the other hand there are certain actions to avoid. Companies should be very cautious about terminating people or cutting back salaries and benefits in the acquisition. They may provoke negative employee reactions such as turnover, absenteeism stress, and lower productivity.

Conclusion: Improving the Chances for a Successful Acquisition

It can be argued that by paying attention to the most important success factors at all three stages, companies will be able to predict the outcome of approximately 85 percent of their acquisitions. A major caveat applies. Because the range of this research was restricted to a sample of large, public companies with active acquisitions programs, it may not be as applicable to smaller or privately held companies. As well, because the responding companies included relatively more companies in the manufacturing and resource sectors than in the service industries, it may be less applicable to the latter. Finally, the relatively small number of companies surveyed also decreases the generalizability of the findings. Nonetheless, they point the way to improving the chances of successful acquisition outcomes, and any improvement would be welcome, considering the previously reported low success rates. The companies in this study were on the whole living happily ever after with their acquisitions because they had assimilated the three lessons and were applying them to their acquisition programs.

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Appendix
Survey Items Pertaining to Managing the Human Dimension

Respondents were asked to rate to what extent (a great extent, somewhat, or not at all) they used the following strategies:

1 We used temporary task forces from both companies.
2 People were identified for quick termination.
3 Valuable people were 'wooed.'
4 A vision of the merger was sold throughout the company.
5 We offered equity participation to executives to encourage them to stay.
6 We offered performance incentives to executives after the merger.
7 A temporary management structure was established.
8 Clients were educated as to the benefits of the merger.
9 A new name was provided for the acquired company.
10 Headquarters were relocated.
11 We used a communications consultant.
12 A formal communications plan was implemented.
13 The CEO went on field visits.
14 Senior staff went on field visits.
15 We were open with the media and government.
16 We used a merger-related newsletter.
17 We used merger-related objects such as T-shirts, hats, etc.
18 We had a formal statement of basic principles to guide merger decisions.
19 We intensified contact with clients, suppliers, etc.
20 Wide consultation was sought before major decisions.
21 We set clear specific goals for the merger.
22 People at all levels from both companies participated in decisions.
23 Training and education were intensified.
24 Rituals and ceremonies were used.
25 We were careful about giving out information that might have to be changed later.
26 We were careful to whom information was given.
27 At first we announced there would be 'no change.'
28 We had to terminate some who did not cooperate.
29 We sent in some of our staff to do a first assessment.
30 We cut back on the target's 'rich' salary and/or benefit package.
31 We adopted the target's policies or structures where they were better.