How do you generate value from acquisitions? Most managers would agree that value creation takes place after the deal has been signed, through a process of asset rationalization, activity integration, and employee acculturation. But what should the priorities of the new management team be? If it starts with rationalization—closing duplicate facilities, reducing the head-count—it will make rapid progress on the cost side, but it will face the prospect of a demotivated and scared work force. If the team starts with acculturation—building relationships between employees from the two firms, fostering a common culture—it will end up with happy employees, but very little in the way of cost savings. And doing both at the same time may not be the answer either, because of the apparent hypocrisy: telling employees their involvement in the integration process is vital to the success of the enterprise, and in the next breath announcing that there will be significant staff reductions.

This basic dilemma confronts most managers involved in acquisitions. Consider two recent cases from the investment banking industry. Swiss Bank Corporation acquired S.G. Warburg in 1995 and attempted to integrate its purchase in just seven weeks. The result was predictably painful for employees, and many Warburg bankers departed for greener pastures. Since then, however, the firm has done well. In 1989, Deutsche Bank acquired Morgan Grenfell and took the opposite approach—making no precipitous changes and giving Morgan Grenfell considerable autonomy. After five years, management began to push the integration process, but with mixed results.

Which is the better approach? In recent years, much of the writing on post-acquisition integration has argued for speed. According to Feldman (1995), “This is the time to move quickly; the best time for change is when change is already taking place.” Galpin and Robinson (1997) argue that “the most successful acquirers favor the risk of some early upheaval to the certainty of lost value due to inaction.” Smith and Quella (1995) maintain that merger integration “is like pulling off a Band-Aid: It can be slow and painful, or fast and painful.”

This is all sound advice built on the research and consulting experience of the writers in question, so one should not deny that speed is desirable in many cases. Instead, we should look at one category of acquisitions, those in which the knowledge assets of the acquired firm are critical. For such cases, a slower process focused initially on “human integration” is apt to be superior. In other words, knowledge-intensive acquisitions need to be handled with care.

In part, the logic here is simply about taking the integration process slowly; rapid, precipitate action can lead to anxiety, disaffection, and mass resignations among the employees of the acquired company. The Warburg case illustrates this danger. But there is another aspect to the argument as well. Core knowledge workers such as scientists, engineers, and professionals need to be managed very carefully during the integration process. Such people are used to doing things their own way. They like some guidance, but
hate direct orders; they like to be consulted, but don’t necessarily want a high level of responsibility. Managing them can be difficult at the best of times, requiring great patience, give-and-take, and a high level of trust to be effective. But such qualities are seldom in evidence in the early days of an acquisition. Consequently, effective acquisitions in such situations tend to move very circumspectly and with enormous respect for the knowledge workers they are acquiring.

Three cases of post-acquisition integration over a six-year period can shed light on this discussion. All three cases in this study involved Swedish companies acquiring foreign competitors and trying to integrate the R&D activities of both organizations.

- Eka Chemicals acquired the paper chemical business of Albright and Wilson, a U.K. firm, in 1990. The study focused on the integration of Eka’s R&D laboratories in Sweden with Albright and Wilson’s laboratories in the U.K., the U.S., and three other European countries.

- In 1989, Alfa Laval, one of the world’s leading manufacturers of industrial separators, acquired Sharples, a U.K.-based competitor with expertise in industrial decanters. The integration of Alfa Laval’s decanter R&D operation in Denmark with Sharples’ counterparts in the U.S. and U.K. was studied. This acquisition had been resisted by Sharples management, so Alfa Laval faced a delicate situation as it embarked on its integration strategy.

- ABB acquired Combustion Engineering in the U.S. in 1990. The focus of the study was on one part of that acquisition, the integration of the two companies’ different process control systems. The major development work was in Sweden (for ABB) and the U.S. (for Combustion Engineering), with smaller operations in Germany and Switzerland.

As this case study analysis shows, the three firms have all been reasonably successful, though each has experienced problems along the way. More important in terms of our main argument here, all three pursued a slow integration approach that was predicated more on the process of acculturation between the two groups than on capturing operational synergies.

The Framework: You Take the Low Road and I’ll Take the High Road...

Although a simple fast-slow distinction can be used to characterize most integration processes, the reality is rather more complex because of the variety of processes under way at the same time. So a framework was developed in the course of this research in which the integration process following an acquisition has two essential objectives: task integration and human integration. Task integration refers to how the value-adding activities of the two companies are put together to generate synergies. It involves transfers of capabilities from one company to the other, and the sharing of resources between the two. It typically also involves rationalization of activities, through downsizing and asset sales. Human integration refers to the process of generating satisfaction—and ultimately a shared identity—among the employees of the merged company. In the period immediately following the acquisition decision, the human integration process has to alleviate all the negative attitudes that change and uncertainty bring. In the years that follow, it is more about generating a single, unifying organizational culture.

Task integration and human integration are often at cross purposes. In the days following an acquisition announcement, for example, managers should meet one-on-one with every employee to allay understandable concerns. But the demand for rapid action and cost control typically render such a move prohibitive. In contrast, closing one of the acquired firm’s plants should help the task integration process but will almost certainly hinder the human integration process, unless handled very skillfully. Thus, the ultimate goal of full task and human integration is clear (even though not always attained), but the route chosen, and the trade-offs that route implies, are a source of continuous conflict for the individual’s responsible for the integration process.
Figure 1 illustrates the task/human integration framework. Two routes are indicated, the “high road” and the “low road,” representing the most common generic approaches to managing integration. The high road is the one chosen by Deutsche Bank in its acquisition of Morgan Grenfell. The approach was to proceed slowly: take no precipitous action that would scare away the Morgan Grenfell staff; reassure them that their jobs were not threatened; gradually build relationships between Deutsche and Morgan Grenfell teams; create opportunities for sharing ideas and transferring best practices; foster the emergence of a common culture; and then very slowly look for ways to share resources or reduce costs. The bottom line was to get the human integration process right, and integrate tasks later.

Swiss Bank’s acquisition of S.G. Warburg represents the low road. Here the logic was very different: there was a need to deliver on the promised synergies; the acquisition was going to create uncertainty and change for Warburg, however it was implemented; the best Warburg people were already looking elsewhere, so Swiss Bank needed to act swiftly. Quick decisions were made over who would work for whom and who would lose their jobs. The remaining employees were thanked for their loyalty and told they represented the heart of the new company. The new organization was put into place and gradual attempts were made to build a single, unifying culture. The bottom line was to pursue task integration first in order to realize synergies, then spend a lot of time on integrating people with the new organization.

Why the high road and the low road? A Swedish expression says that “The shortcut is often a longer road,” and so it is with post-acquisition integration. The low road may appear shorter, with its promise of immediate synergies, but if management rushes ahead over the values and expectations of employees, it can end up creating a longer and more troublesome integration process. The companies that take the high road, by contrast, tackle the difficult, human problems first and, once those have been solved, move on to the realization of synergies.

The companies in this study all pursued the “high road” approach in the integration of their R&D activities. Of course, each had a very different strategy and encountered different problems along the way. But all of them clearly emphasized ensuring that the task integration process did not get ahead of human integration. Three distinct phases could be identified, as Figure 2 indicates:

1. Initial actions: The first steps were taken by the management of the acquiring company to reassure the employees of the acquired firm and involve them in decision-making in the merged organization. This phase sometimes began even before the final deal was signed, and lasted for the first six months or so.

2. Follow-up. The new management group followed up on its initial actions and gave some continuity to the integration process. Its tasks included working through all the operational details of the acquisition, managing the merged organization as a single entity, and sometimes even pushing through a further round of changes. This phase took a year or two, depending on the extent of integration chosen.

3. The second wave. Perhaps unique to the high road approach, a second wave of integration was observed in every company three to five years after the acquisition. It consisted of various efforts to enhance the operational efficiency or task integration, of the merged company. Such efforts were acceptable only because the human integration process had more or less run its course, and the individuals involved could make sense of the changes in their own right.

This three-stage model is, of course, an oversimplification of the reality these firms faced. But it has proven to be a valuable way to categorize the actions taken during the integration process. We shall examine each of the three phases in turn.

Initial Actions—Building on the Strengths of the Acquired Unit

Each of the three Swedish companies had some experience with acquisitions, so it is not surpris-
ing that their initial actions followed many of the standard dictums—create a new management group comprising members of the acquired company, build joint task forces, communicate the planned changes, and so on. But there was also one important difference: an acceptance of duplication and sub-optimization in configuring R&D activities so as not to impose too much change too quickly on the knowledge workers of the acquired company.

Eka Chemicals management knew it wanted to retain and build on the development capabilities of Albright & Wilson, so it was careful in the early stages not to push the integration process too quickly. Johan Wedlund (names are disguised in these cases), the head of R&D, quickly announced the establishment of five technical centers, four of which were Albright & Wilson laboratories. This decentralized approach was "to retain personnel and smooth the integration process," even if the new configuration of activities would be harder to manage effectively. At the same time, Wedlund and his colleagues made great efforts on the human integration side through such actions as joint technical center meetings, rotating personnel between sites, and international project teams. Known as a great networker, Wedlund moved to England for the first few months and spent a great deal of time on the road visiting the various R&D sites.

Alfa Laval's management faced a greater challenge because its acquisition of Sharples was hostile. Whereas task integration was pursued very rapidly on the manufacturing side, the R&D operations were handled much more cautiously. The decision was made to downgrade Sharples' U.K. R&D unit to an adaptation/engineering role and split the development work between its U.S. operation and Alfa Laval's Danish unit. However, in reality there was relatively limited interaction between the three units, with the result that their de facto responsibilities did not change markedly. The Swedish general manager acknowledged that Alfa Laval were "too weak in the beginning to decide about product rationalizations" between the three units, with the result that significant duplication occurred. On the human integration dimension, some efforts were made in the early days, but these came to a halt when the managers initially responsible for integration left the company.

For ABB, the Combustion Engineering acquisition was one of many major acquisitions it had been through in recent years. Immediately following the announcement, a new business team of six individuals, with representatives from both sides, was established in the U.S. and took responsibility for managing the process of transition. This included joint international task forces, the use of common standards, quarterly development meetings, video conferences, and extensive travel between the two key locations. The team also planned a very ambitious task integration process with the aim of building a single integrated industrial control system between the two R&D sites on the back of a major technological shift currently under way in the industry. Through a series of 20 or so interconnected development projects over a three-year period, the two units would simultaneously integrate their work and build a unified organization.

Of the three companies, Alfa Laval apparently did the worst job of managing the immediate post-acquisition period, but it also faced the greatest risk—namely, that the critical Sharples employees would all leave. A number of common themes can thus be drawn out regarding initial actions:

- Create a visible integration leader or team whose primary responsibility is to manage the integration process, and ensure that the leader's or team's actions are communicated throughout the new organization. Eka Chemicals had such a leader; Alfa Laval had one, though he left after a year and was not replaced; and ABB had a steering group of six people who physically relocated to the U.S. to be closer to the activities of the acquiring firm.

- Convince the employees of the acquired company that they have a valuable role to play. In Eka Chemicals and ABB, the new management groups included several individuals from Albright & Wilson and Combustion Engineering, respectively. In Alfa Laval, the merged organization in the U.S. spent several months putting together a mission statement and developing core values that both ex-Sharples and ex-Alfa Laval employees could buy into.

- Carve out clear responsibilities for the acquired units, even if that means some duplication of activities. In all three cases, the main R&D unit of the acquired firm was given such a mandate early on. This allowed the units to "sink their teeth into" their work rather than wait for instructions from their new masters.

Follow-up—Deepening the Human Integration Process

In many ways, the follow-up phase appears to be the hardest to manage well, because the initial excitement and concern of the acquisition have worn off but the new, unified organization has yet to emerge. In the three companies studied,
the follow-up phase was managed in various ways.

At Eka Chemicals, the initial steps had gone well and employees from Albright & Wilson were mostly happy with their new employer. As a result, the follow-up phase took the form of another round of integration. Lars Fredriksson, who took over from Wedlund in 1993, began to push the task integration process in terms of “internal efficiency: linking the R&D work to business strategy and pushing for results-directed development.” He focused the R&D activities on two of the five original locations, Sweden and the U.K., and worked hard on building integrative mechanisms between them and between R&D and marketing. As Wedlund had done, he also emphasized human integration to ensure that the R&D personnel stayed.

At Alfa Laval, the most noticeable characteristic of the follow-up phase was that it did not even occur! Because of the risks involved in integrating too quickly, and because clear roles for the U.S. and Danish R&D centers had been established early on, management ended up adopting a strategy of benign neglect. Both R&D centers continued to work effectively on their own projects, with relatively little interaction between them.

ABB continued to pursue its ambitious development goals, with steady efforts to strengthen the links between the Swedish and U.S. R&D centers. By 1993, however, it was clear that the integration project deadlines had been “completely unrealistic.” Consequently, the next generation system eventually came out two years late, with only 60 percent combined software between the U.S. and Swedish versions. Task integration was compromised because of the rather different objectives of the development groups on either side of the Atlantic. As one individual commented, “We ended up taking the path of least resistance—parallel development.”

Human integration was achieved to a moderate degree; there were concerns in the United States in the first few years, but only a few people left, and confidence in the Swedish parent gradually grew.

Clearly the follow-up phase varied a great deal between the three companies, with Alfa Laval still lagging in both human and task integration and Eka and ABB both pushing ahead with different degrees of emphasis. Three generic points can be culled from their experiences:

1. Emphasize work-related interactions between acquiring and acquired firms, because they advance both task and human integration at the same time. Joint project teams, for example, involve putting together people from both sides and giving them an important task integration job to do. That way, in the course of carrying out the task they can get to know one another better and begin to understand the work practices and values of each other’s firm. Once the project is finished, individuals can go back to their original positions and, it is hoped, spread favorable impressions about their new colleagues. Other dual-focus tactics work in similar ways. Joint technical seminars, joint training courses, and joint task forces for identifying synergies can all be used to varying degrees and with generally good results. Likewise, rotating personnel is a powerful way of promoting the integration of tasks between the two sides, while at the same time ameliorating the us-versus-them syndrome.

2. Pursue task integration when the human integration process is well advanced. Eka seems to have moved fastest toward integration on the human dimension. So it was well placed to rationalize its R&D operations without fear of backlash from the employees of Albright & Wilson.

3. Be prepared to “go with the flow” if task integration problems arise. This is almost the corollary of the second point. It applies primarily to the ABB case, in which integration plans proved to be overly ambitious. Thus, rather than push ahead with them, management accepted the more realistic option of parallel development at the two locations.

The Second Wave—Revisiting the Task Integration Process

The final phase of post-acquisition integration often appears to be neglected because it occurs several years after the acquisition. Nevertheless, it is vitally important if the promised synergies are to be realized. Again, the precise nature of the second wave varies according to what happened before, but it typically centers around the task integration process.

At Eka Chemicals, the second wave began about 1995 and consisted of a gradual push toward eliminating overlapping or redundant activities between the two main R&D units. (The human integration process, it was generally agreed, was already more or less complete.) This wave...
acquisition integration because of the lack of integration in earlier years. For ABB, the second wave was built on a new-generation project once the initial integration had been completed. For Alfa Laval, the wave was sparked by a realization that integration had been neglected, and by a belief that the acquisition itself was far enough in the past that old antipathies had been forgotten. At Ika Chemicals, the second wave was large, but nonetheless an important part of the ongoing rationalization of its R&D activities.

The generic observations we can make from our study of the second wave are as follows:

* Periodically evaluate the results of the integration process, and assess whether a second wave of integration would be valuable. The reason for a second wave occurring was different in each of these companies, but a strong case can be made for institutionalizing such a process. In some ways, of course, the second wave is no different from the ongoing management of a dispersed organization. The important difference is that it is fundamentally a task-integration process that occurs once human integration has run its course. Evidence collected during this study suggests that the convergence in organizational culture, or "acculturation," typically took four or five years, which coincides fairly well with the second wave of integration.

* Focus on task integration activities that were unnoticeable in the period immediately following the acquisition. Alfa Laval, in particular, discovered that the appropriate degree of integration between Denmark and the United States was far higher than would have been possible to implement earlier.

* Ensure that the second wave cannot be perceived as a push back toward the old center of gravity of the acquirer. In the Alfa Laval case, the new Decanters business unit was actually centered in the U.S., and in ABB both the Swedish and U.S. units were given similar levels of responsibility in the new development process. Both thus reinforced the idea of a single, unified R&D entity, rather than a consolidation around the acquiring company's original headquarters.

Taking the high road of slow and cautious post-acquisition integration is the best choice when the acquired company is knowledge-intensive. In other words, scientists, engineers, and other knowledge workers must be integrated slowly and carefully into a merged organization if they are to continue to work to the best of their ability. At its heart, this means placing a high value on their contributions and giving them the degrees of freedom they need to work effectively. Neither of these approaches comes easily in the context of an acquisition. But with good planning, patience, and an under-
standing of the qualities of such employees, the integration can be a success.

The high road/low road distinction in our framework was made on the basis of the source of value in the acquisition: When the assets are "knowledge workers" who have the option of leaving the acquiring company, the high road works best, when the assets are company-level attributes such as products, brands, or market share, the low road may be better. Nevertheless, a number of other factors could also influence the high road/low road choice:

* The goals of the acquisition. Is the goal to absorb the acquired company into the acquiring company, to leave it largely autonomous, or to achieve a "syntegration" between the two? Typically, absorbing the firm is managed best through a high-road approach, and autonomy and syntegration are best achieved by taking the high road.

* Pressure from different stakeholder groups. The active capital market in the Anglo-American form of capitalism puts great pressure on managers to realize the benefits of acquisition quickly. The European version, with its greater concern for other stakeholders, such as employees, typically entails a lot more patience. Obviously the low road is likely to be favored in the former case, and the high road in the latter.

* Differences in organizational and national culture. Such differences, regardless of the strategic fit, can make the integration process very difficult. As a general rule, the greater the cultural differences between the two companies, the better a high road approach will work.

Unfortunately, these sets of factors will often be at cross-purposes with one another. In such a case, the choice of integration approach is far from simple. Instead, the decision has to be made according to the specifics of the case in question, and reevaluated on an ongoing basis. Nevertheless, the high road/low road framework does at least provide a way of thinking through the trade-offs and risks involved.

Another important point to consider in terms of the task integration/human integration framework of Figure 1 is whether the top right corner of "complete integration" is practical or even desirable goal. This research was conducted using the implicit logic that every company should pursue its integration process to completion. But often the reality is that integration never completely runs its course. Task integration is frequently left unfinished, with significant duplication of activities many years after the event. Nor is human integration always achieved in its entirety; the Sharpeles U.K. operation was still clinging to its old identity six years after the acquisition, and showed no signs of moving on.

The reasons for this are several. One is political: if the acquired company had a strong presence in its local community or was a national icon, the acquirer might feel an obligation or make a commitment to retain certain activities or certain brands in perpetuity. Electrolux's acquisition of Zanussi and Nestle's acquisition of Brown & Root were both examples of political imperatives that impacted the ability of the acquirer to see the task integration process through to completion.

A second reason is simply diminishing returns. Once the integration process is 90 percent complete on the task or human side, the cost of achieving the final 10 percent may not have commensurate benefits.

If one single conclusion can be drawn from this study, it is that a company considering the acquisition of another firm needs to devote explicit attention to integrating both tasks and people. Even if human integration ends up taking their priority over task integration, or vice versa, that decision should be made in full knowledge of the risks the approach entails.

The alternative scenario, which many firms probably end up falling into, is that the integration process is pursued according to one or two key imperatives that are never placed in a wider context. As a result, mistakes are made that result in either massive employee disillusionment or missed opportunities for synergy. Using the framework proposed here, it should be possible to steer a more educated course between the perils on either side of the optimal integration path.

References


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