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Soft Issues in Mergers and Acquisitions

Dedication

To my parents for their relentless guidance and love. To my grandfather, Otfried Steger, who has and will always be my inspiration to excel. To Dina Mansour, who spent tremendous time in correcting many errors and suggesting vital improvements.

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In recent years, hardly a month passed without a major merger or acquisition. These corporate mergers focus on the creation of shareholder value and the use of synergy effects that should result from the combination of the best features of the resolved companies. However, in reality, these goals are hardly achieved. Merged companies often do not grow and merge in the way they are supposed to and the hoped for enhanced performance is often not achieved, since the so-called "Soft Issues", found in most merger processes, have been paid insufficient attention. These factors will be the focus of the analysis of this book.

1. Introduction

"Companies are just beginning to learn what nations have always known: in a complex, uncertain world filled with dangerous opponents, it is best not to go it alone." (OHMAE, 1989, S.8)

According to the World Investment Report of the year 2000 (see WIR 2000), the importance of mergers and acquisitions (herein referred to as "M&As") has been witnessing a steady increase since the 1990s. In fact, in the year 2000 alone 100 percent of the foreign direct investment (FDI) of developed countries has been through either mergers or acquisitions. Consequently, it is not surprising for the issue of M&As to become one of the main topics in economic literature and to raise such interest and focus in all other areas of economics. Scientists and experts in the fields of finance, strategic management, organizational theory and marketing have as such been constantly attempting to explain the issue of M&A on the basis of various theories. Yet, there seems to remain a number of fundamental unresolved questions involved in the topic. In fact, despite the extensive scientific research done on this area of study the record of successful mergers remains rather poor. Between 50-83 percent of all M&As face imminent failure (see KPMG, 1999, AT KEARNY, 1999, WATSON WYATT, 1999, DELOITTE & TOUCHE, 2001), as the expected synergy and increased performance levels fail to come into effect.

In fact, a “fusion” of companies is in itself a rather daunting and complex task – one that involves merging two or more sometimes conflicting business cultures, principles and expectations. What begins as a strategic concept on a piece of paper evolves through complex financial and tax structures into an increasingly complex entity. Although the M&A has, therefore, been planned with the necessary care (the ‘due diligence’ phase), while defining all operational objectives, many companies fail after concluding the merger to achieve the economic goals defined and laid out during the initial planning phase.

One of the main reasons for this high rate of failure in achieving the hoped-for objectives during a merger process can be traced back to what is known as “soft issues”, which are most often neglected. It is not only the financial, legal, technological and economic factors that play a critical role in the successful implementation of corporate mergers, but a careful consideration should also be given to cultural integration, the organizational structure of the new company, communication as well as leadership. Therefore, the aim of this study is to address and analyze the role played by “soft issues” in the success or failure of M&As, what problems arise as a result of mergers and how they are to be resolved or at least minimized. In this regard, for each emerging “soft issue” there are one or more possible solutions for resolving them, yet “soft issues” in themselves are interdependent. For this reason, it is also vital to analyze the interactions that exist between the different “soft issues”. As such, in principle, the aim of this study is to develop a simple and coherent model that would help managers and business organs in better understanding the integration process itself thus making it possible to develop a successful integration process and increase the chance for a more effective merger and the consequent attainment of objectives. A coherent model in this regard is difficult to find in scientific literature. Available literature deals mostly with individual "soft issues". As such, the literature is, on the one hand, characterized by a strong fixation on specific "soft issues" while neglecting more important ones, and on the other hand, characterized by the lack of analysis on the interaction and the interrelationship between different "soft issues".

This mostly results in an inadequate analysis and understanding of the effect of "soft issues" on the success of corporate mergers. Moreover, literature found in the most pertinent scientific journals hardly provides solutions due to the often overly descriptive character of those studies. Hence, this analysis will be based, on the one hand, on texts found in renowned economic journals and books, as well as interviews with managers of different firms within different sectors. The resulting thought-provoking information of these interviews together with the approaches found in various scientific literature, will provide the basis of this work.

The herein developed model cannot, however, guarantee, even with a full implementation, an effective integration process. It should rather be taken as a basic approach towards the better understanding of "soft issues" and the means to better deal with and resolve such issues, especially as they are dealing with the so-called "soft facts". Accordingly, the model must be adapted to the individual merger and its own specific "soft issues". This study does not in fact deal with the whole process of a corporate merger, but rather focuses only on the most important and the most difficult phase to plan ahead: the post-merger phase, as it is exactly in this phase that "soft issues" play a major role. In addition, it simplifies the hierarchical perspective and makes no distinction between top, middle and lower management, but distinguishes generally between employees and management, and depending on the context, the lower management can be attributed to the former or latter group. In that sense, this book will be limited with a few exceptions (such as in the area of information politics) to only these two groups of stakeholders. Furthermore, only horizontal mergers of public and listed companies will be considered where some insights can definitely be applied on state and family enterprises. For simplicity, only if it is explicitly mentioned, a differentiation between mergers and acquisitions is made and the generic term “M&A” will be used.

This book is divided into 5 parts: following a short introduction and a problem proposition in the first part, in the second part the most important terminologies (i.e. M&A, “soft issues” and post-merger phase) will be defined, while underlining the most fundamental correlations, explaining the thematic importance of the work at hand to the reader. The third part tackles the problems arising out of an M&A with the fourth proposing possible solutions while analyzing the interrelationships between them. In the last section a conclusion will be drawn.

2. Mergers, Post-Merger and Soft Issues

2.1. Mergers

2.1.1. The Background and Motivation of M & A

By looking into available scientific literature, many reasons for concluding the M&A will become clear: it provides a faster way to gain and access key resources, product innovation and market entry instead of each company having to create this individually. This also applies to growth, for M&A can provide a faster way than organic growth. Two more important factors are: the economies of scale and synergies and the associated reduction of costs associated with both. Other reasons would include the creation of market power or domination by restricting competition, achieving tax relief for companies, risk minimization, the creation of capacities and their clearing, the construction of a business empire, the separation from entrepreneurial outdated, and even non-economic motives, such as hubris, self-interest of managers, the whitewashing of weak points and acting out individual ambition (see DE BONDT &THOMPSON, 1992; AGRAWAL,

ET AL., 1992; BAKER ET AL., 1985; GALBRAITH & STILES, 1984; STEWART ET AL., 1984; KELLY, 1968). In addition, empirical research shows that acquisition has been the main feature of the internationalization process in the last decades (MCKIERNAN, 1992).

In practice, many of these reasons behind the conclusion of an M&A may play a role at the same time and it is often difficult to define the exact cause behind the merger. Concerning performance improvement it can generally be said that this is achieved through the permanent integration of the companies involved. In fact, considering the analysis of the performance factors of an M&A, it becomes apparent that performance is some kind of a "melting process" consisting of many variables. Therefore, an M&A often contains long-term perspectives and a performance boost cannot necessarily be expected in the short-term. Scientific literature, moreover, questions the sense behind M&As (see AGRAWAL ET AL., 1992; COFFEY ET AL., 2003). Economic reality reveals, however, that "Merger policy may not be pretty, but surely it is unavoidable" (DE BONDT & THOMPSON, 1992, p.31).

2.1.2. The Historical Development of Mergers and Acquisitions

Business mergers are not the product of our time. In fact, the 19^{th} Century already witnessed the first M&As (see JANSEN, 2001). History shows 5 periods that witnessed a heaping existence of M&As – the so-called "merger waves" – where these time periods are made of cycles that begin with a high rate of mergers, followed by a period of lower M&A activity. These 5 so-called "merger waves" were as follows:

- The first took place by the end of the 19^{th} Century, which in general reflects the process of the Industrial Revolution. During this period, M&As were primarily horizontal in nature and had their political implications in the Sherman Act and Clayton Act, which were enacted to prevent the excessive monopolization of power.

- The second took place in the 20s of the 20^{th} Century and was dominated by vertical and conglomerate mergers, as horizontal mergers were then under legal scrutiny. During this period, industry-specific clusters were formed in areas where the creation of networks permitted the use of economies of scale, as for example in the case of the railroads.

- The third took place in 1960s until the middle of the 1970s. Observing the strategic portfolio-models of the time such as the growth-share matrix of the Boston Consulting Group, which targets cross-subsidization it becomes clear which motivation was behind the mergers of this time. REID (1968) and MUELLER (1996) show that the reason was the creation of conglomerates since through the pooling of enterprises a market power was created that should grant the enterprise certain strategic advantages, like predatory pricing or confronting market strategies, that were financed by cross-subsidization (see SHEPHARD & WILCOX, 1979). In addition, the creation of economies of scale on the consumer market was a priority. This should be established through the diversification of products, which were to be produced by the individual sub-enterprises of the conglomerate.

After this wave in the 1960s, a change in thought took place. Since then most models are based on the idea to make better use of the input factors, which are created by operational savings and financial benefits resulting from the synergies (see ANSOFF, 1965) or focus on the risk diversification both as a result of company mergers. Other models focus on the ability of a company to influence environmental interactions (see PFEFFER, 1972). PFEFFER and SALANCIK explain that "the key to organizational survival is the ability to acquire and maintain resources" (1978, p. 2). In the early 1980s, M&A has mainly consisted of financial transactions in which the acquired under-evaluated company/enterprise was to be broken-up and its individual parts to be sold for a financial gain.

- The fourth took place in the mid-1980s while companies started to prepare themselves for an international market. The goal was to convert national champions into international or at least European ones. The slogan of the time was “the usage of synergies” that would result from the mergers of products with similar and related technology. Accordingly, most of the clusters of this time were to be found in technology-intensive industries. A consequence of these mergers is the EU Merger Control Directive of 1989 (along with the further directive on cross-border merges and takeovers approved in 2005).

- In the fifth merger wave that took place in the late 1990s, the M&A rate increased again and continued at that level until today. It is dominated by the process of globalization and de-regulation. The internationalization has tremendously increased the markets of the individual companies. It does thus impose high demands on the size of a company but also provide numerous opportunities to enter foreign markets. In addition, the process of de-regulation has led to national monopolies facing international competitors. As a consequence, those industries are of fundamental importance, which operate in global markets and are affected by the de-regulation and liberalization of markets due to an increase in competition intensity.

In the end, this historical development illustrates that internationalization, the utilization of synergies, and thus also the importance of “soft issues”, have become increasingly important in the context of corporate mergers. This has also been illustrated by scientific literature. It is in the end of the 1960s that “soft issues” made their first appearance given the increasing importance of synergies. In addition, the social tensions resulting from an increasing internationalization process intensified the serious effect of “soft issues” on mergers.

2.1.3. Definitions and Types of M&As

Simply speaking, a merger is defined as the fusion/connection of economically and legally independent companies into a single unit. In addition, a merger will also emerge even when the companies are not yet legally connected. One can already speak of a merger if control of the parts of one company is handed-over to that of another. This control of the company unit occurs in the case if the other company possesses the majority stake or a sufficiently large block of voting rights. Although this might be less than 50 percent, yet with no other large stake-holder existing, the latter company can/is able assume control (see MUELLER, 1969).

In general, mergers can be grouped differently based on their types and dimensions (see BUONO & BOWDITCH, 1989; CARTWRIGHT & COOPER, 1992, and Table 1).

<table>
<tr><td>Types of M&A</td><td colspan="3">Merger</td><td colspan="3">Acquisition</td></tr>
<tr><td>Strategic Alignment</td><td colspan="3">Horizontal Integration</td><td colspan="3">Vertical Integration</td></tr>
<tr><td>Dissimilarity of business divisions (stronger -> weaker)</td><td colspan="2">related</td><td colspan="2">concentric</td><td colspan="2">conglomerate</td></tr>
<tr><td>Degree of “Hostility” (stronger -> weaker)</td><td>Organizational Rescue</td><td colspan="2">Collaborations</td><td colspan="2">Contested Situation</td><td>Raid</td></tr>
<tr><td>Degree of Integration (stronger -> weaker)</td><td colspan="2">financial</td><td colspan="2">+ strategic</td><td colspan="2">+ operational</td></tr>
</table>

Table 1: The Types and Dimensions of Mergers and Acquisitions

On the one hand, we can differentiate between “merger” and “acquisition”: the principle of a merger implies the fusion of equitable companies in which the operating assets and business divisions are combined under common control. This can be expressed by the creation of a completely new company in which the assets of the old companies are completely absorbed. It is not necessary that each of these ‘old’ companies possess an equal share of the newly formed company. In an acquisition (or take-over), however, one company takes over another and completely integrates it in itself. In doing so, the acquired company’s assets and liabilities as well as its managerial control become a part of the acquiring company. After the take-over process, the acquired company ceases to exist independently – it rather exists as an affiliate of the acquiring company. On the other hand, an M&A can be classified according to the strategic orientation of its members. Two dimensions can be distinguished: horizontal and vertical.

- In a horizontal integration, companies are located in roughly the same level of production.
- In a vertical integration, companies of an upstream and/or downstream production stage merge.

Another dimension of the M&A is based on the degree of differentiation of activities and products of the different companies that take part in the M&A. In an M&A, which is of a conglomerate type, companies are not akin, but act in completely different markets. In a concentric M&A, companies of similar markets are brought together. In a related M&A, companies belong to the same branch of industry.

Another feature by which we can differentiate M&As is the degree of friendliness (or hostility respectively) of the take-over. It can be a matter of “organizational rescue”, “collaborations”, “contested situations” and “rates” (see also PRITCHETT, 1985 and section 2.3.4.). Moreover, the degree of integration of an M&A may differ. If the companies are integrated only financially, the aspired for “fusion” is in this case of a lower nature. However, if the companies integrate strategically, the fusion is of a medium nature, whereas operative integration results in a fusion of a higher nature.

2.2. Hard Issues versus Soft Issues: A Literature Review

2.2.1. “Hard Issues”

When looking into the scientific literature, it becomes clear that the majority of studies are based on a “hard” analytical approach, where mostly performance results, returns of scale, control mechanisms to reduce costs and legal matters, such as contractual agreements, are examined. In addition to the above reasons, this is caused by the fact that “soft issues” are more difficult to quantify and their impact on the success of an M&A has not been sufficiently recognized. In this literature, two relevant theories arise that explain the reasons for M&As and their performance. The first is based on *Rumelt’s thesis (1974)* and states that the potential benefits of an M & A is dependent on the competitive strength of the companies involved, the market growth and the degree to which these two factors fit strategically (meaning an overlap in terms of production and fields of action) with the other company. Therefore, the potential value of an M&A is dependent on the common characteristics of the corporate environments, i.e. how strong the strategic fit between both companies is. This assumption is referred to as “merger contingency framework” (see LUBATKIN, 1983).

The second theory suggests that M&As are the result of an asymmetric information distribution and competition (see RUMELT, 1979, PORTER, 1980). In an asymmetric market, all companies obtain different gains from synergies through a merger. Under the assumption of rational behavior, the “asymmetric theory” tells us that the acquiring company has to pay a price for the acquired company that is equal to the discounted future value after the acquisition. This value depends positively on the strategic fit of the companies involved. The company that best matches the acquired company will offer the highest price for its acquisition. Thus strategic fit plays a main role in scientific literature. COFFREY (2003) found out *inter alia* that the expected synergies of an M&A were not realized in 70-80 percent of the cases and that after the announcement of an M&A the stock value of the companies involved only increased in 30 percent of the cases. Furthermore, almost 95 percent of the products of the merged companies and 65 percent of the M&As resulted in a negative shareholder value.

2.2.2. "Soft Issues"

The M&As of recent years have caused an increased internationalization process, which led to the creation and development of new markets and thus to an increased aspiration for company growth, diversification and increase in shareholder value. It is exactly this internationalization process that does not only include implications on financial, economic, legal and technological, but also social factors. CHRICHTLOW (2003) referred to three converging movements that are gaining greater importance:

1. The world's major markets are increasingly dominated by companies in the service sector. Thus, the crucial asset is no longer determined by factories and equipment, but rather by human resources, i.e. employees, management and directors, and their existing interrelationships. The management possesses due to its human capital, which is based on specific expertise, an essential asset for the company. This asset is very flexible and can easily abandon the company if the work environment becomes uncomfortable. 47 percent of the senior executives leave the company in the first year; 75 percent within the first three years (COFFREY ET AL., 2003).

2. Because of an increase of transnational transactions caused by the globalization of markets and the corresponding business ventures in

different countries, cultural integration becomes increasingly difficult.

3. In the year 1988, only one of the top 10 companies had the ambition to change the basis of competition; in the year 2000, there were 8. As a consequence, the aim of an M&A shifted from value and size creation to a transformation of the business and the branch of industry of the companies involved.

This is why the modern literature, since the midst 1980s, focuses increasingly on the social and cultural repercussions of M&As. The resulting problems are termed "soft issues" and are increasingly recognized as an important determinant of a successful M&A. As such, the effect of M&As on employees (see CARTWRIGHT & COOPER, 1996; APPELBAUM ET AL., 2000; MARKS, 1997; NIKANDROU ET AL., 2000), the impact of cultural differences (see GALL, 1991), the role of communication during the integration process (see CLEMENTE & GREENSPAN, 1998; HUBBARD, 2001; GALL, 1991; BIJLSMA &FRANKEMA, 2001), and the impact of emotions (APPELBAUM ET AL., 2000;VISCIO ET AL., 1999), and mutual trust (NIKANDROU ET AL., 2000), is analyzed.

Scientific studies have shown that the neglect of soft issues is an important reason for the failure of M&As. Integration takes time and the complexities and repercussions are often underestimated by managers. Cultural integration, communication, leadership, staff and organizational structure, play a fundamental role in the success of a company's strategy to increase business performance and to create a competitive advantage. VAARA (1996) found out that the success of an M&A is fundamentally determined by the following factors:

- Strategic fit (how well do market products and strategic alignment fit together? → "hard fact"; vision can also be considered as a "soft fact").

- Cultural fit (how well do the different cultures of the companies fit together? → "soft fact").

- The management process, which is the basis for the M&A (→ "soft-and-hard fact").

- The level of acceptance of the employees concerning the change and the integration process (→ "soft fact").

- Other factors, such as: environmental factors, management turnover, method of financing, relative size of the companies, experience with M&As (→ "soft-and-hard facts").

It is a fallacy to believe that, after resolving financial, economic, technological and legal issues, nothing else would stand in the way of a successful M&A. Mergers and acquisitions fail because insufficient time and effort is allocated to post-merger problems and relations, to the creation of a coherent corporate culture and an effective integration process, which should support the new organization. In the case of a horizontal integration, in particular, these issues play a role since here many operational functions are to be coordinated. This question will also be examined in detail in the remainder of this analysis.

2.2.3. The Impact on Performance

While "hard issues", such as financial and technical problems, are relatively easy to measure (since a clear and objective value can be assigned to their magnitude and thus errors can be easily identified), the quantification of "soft issues" is much more complicated. Behavior characteristics and social problems are not solid or tangible; they are subject to subjective opinions. However, there are still ways to classify "soft issues" quantitatively since during the transition process of an M&A, a so-called "performance kink" occurs. On the one hand, the issues that have been raised have an indirect influence via the "hard issues" on the performance of a company. Coping with the "soft issues" can cause for the necessary resources, originally intended for synergies, to be redirected elsewhere or completely depleted. Economic synergies are addressed rather too late and in an inconsistent way. Many proponents of M&A consider a merger as self-perpetuating and overlook the illustrated problems, thereby wasting time and resources and deteriorating dramatically the work environment.

On the other hand, these problems may also have a direct influence on the performance. As such, for example, the collaboration in a team can be significantly disturbed and thus it may not live up to the expected performance. Regardless of the difficulty in quantification, the integration process often extends over a very long period of time. Since due to the "soft issues" it may take several years, even generations, until the true performance of the new company can be assessed, more long-term studies are required to have a clearer understanding of a company's performance after an M&A. In addition, these analyses should consider also "soft" factors, such as the working environment and employee satisfaction.

2.3. Phases and Dimensions

2.3.1. The Phases of an M&A

As previously defined, an M&A is either the incorporation of one company into another or the formation of a new company out of several independent companies. It is an organizational and structural process to which scientific attention is dedicated. Consequently, the first phase of the integration process of the companies involved consists of preparing the M&A in the so-called "pre-merger" or "pre-collaboration" phase. This phase can in turn be divided into three sub-phases: in the first sub-phase, the analytic process is performed in which the market and the strategies of different companies are scrutinized and potential candidates are selected. This is followed by the pre-negotiation phase in which talks with potential companies are made in order to assess their financial and strategic potential on the basis of due diligence. In this process, it is analyzed which expectations and financial and economic details are required by experts for the M&A. After a thorough analysis of the similarities and differences, the operational planning and the subsequent procedure are negotiated and planned. In the third and final sub-phase, the involved parties develop common and concrete plans for the merger. Different issues, such as the cost of integration, and issues of strategic operational, cultural, legal, and of administrative significance are discussed. Once the general framework is agreed upon, the merger agreements are formulated in writing. Yet, in this phase, the M&A is not officially announced in order to prevent that negotiations are threatened from the exterior.

In the merger phase, the companies are legally merged into one company, which is officially and publicly announced as per the disclosure obligation. Although the integration process is to some extent planned in the "pre-merger" phase, the actual integration of companies starts in fact only in the "post-merger" phase. Only in this phase does the integration process start and the tasks relevant to the fusion are addressed and clarified. Hence, this marks the first actual collaboration between the entities involved according to the pre-determined arrangements. In contrast to the pre-merger phase, this operation is publicized. It is thus important to determine and prepare in detail the implementation of an M&A based on a careful and pre-determined course of action in which tasks are allocated and measures for a successful merger are defined (see JEMISON & SITKIN, 1986). It is more difficult to answer the question of when this phase ends. Even though it may be formally declared for the process to have been completed, measures undertaken that push the integration process forward, may still arise. Consequently, this phase only ends when all these actions are finished and all companies are formally integrated.

2.3.2. Post-Merger Integration Phase

The main focus of this book is the post-merger phase, which is also the most crucial and critical phase of a corporate merger. This is an interesting phase that is, however, difficult to plan ahead. In addition, this phase does not only involve a small group that includes only managers planning the M&A, but it rather includes all employees of the new company. Nevertheless, it seems to be a common managerial mistake in this phase to underestimate the complexities of corporate integration. It is in this moment that individual decisions for the design of the business process are to be re-addressed. Moreover, the actual transition process into one entity is to be guided in this phase during which a number of critical but also unique decisions are to be made. In addition, after the official announcement of the M&A, competitors would make use of this moment to attack the company in this difficult phase, as it is a moment in which the newly formed company would direct its attention internally without much attention to the external market. The internal restructuring process, the "soft issues" that need to be attended to, and the resulting problems, all contribute to weakening the company's position on the market. Competitors are usually anxiously waiting to attract unsatisfied customers and employees away from the company in this phase. As such, the integration process should flow smoothly while resolving all ensuing problems as efficiently and quickly as possible to give competitors as little room as possible to attack.

2.3.3. Integration and its Structural and Cultural Dimensions

Integration can be defined as the bringing together or incorporation of different parts under a common concept that, as a consequence, will operate internally as well as externally as one unit. Therefore, these parts must be aligned together or at least ways have to be found and agreed upon that would enable them to work together. In a corporate integration, the integration process is rather self-referential, namely, the involved employees and managers are directly affected, and globally systemic. The whole corporation is affected. Moreover, economic integration involves different dimensions.

The two most important dimensions of an integration process are the structural and cultural ones. Both dimensions are interdependent. It is important that in an integration process both dimensions receive sufficient attention without one overshadowing the other. BIRKINSHAW has explained this as follows (see BIRKINSHAW ET AL., 2000, p. 399):

Level of Completion of human integration		Level of Completion of Task Integration: Low	Level of Completion of Task Integration: High
	High	Mixed success: Satisfied employees but no operational synergies	Successful acquisition
	Low	Failed acquisition	Mixed success: Operational synergies but not at employee level

Table 2: Structural and Cultural Dimensions of Integration

BIRKINSHAW has thereby recognized that it is difficult to integrate both dimensions equally and therefore it is rarely the case in reality to end up in the ideal case-scenario A, but rather more in C or B (see Figure 1 on page 18). According to BIRKINSHAW, however, the costs in the case B are higher than that of C .

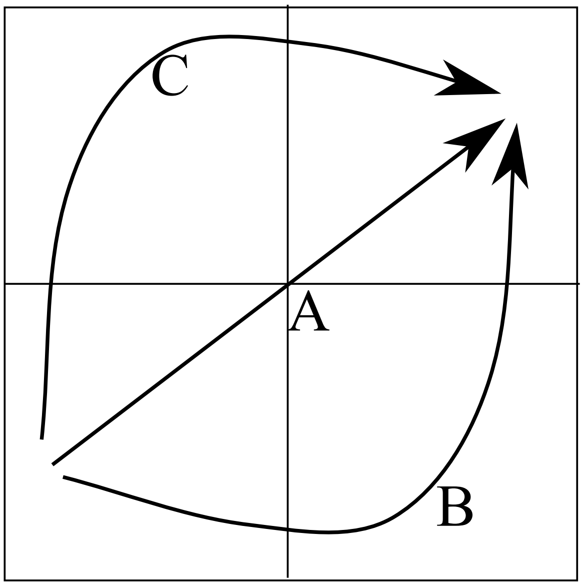

Figure 1: The Optimal Path of Integration

The integration process should be based on a strategy that has been generated in the pre-merger phase. However, it is, as previously mentioned, difficult to accurately plan the post-merger phase ahead. Corporations have an external interaction with their environment and an internal one with shareholders as well as employees. A company can therefore change the internal as well as the external environments through its various processes, yet also the company itself can be affected by those internal and external factors when facing new strategic challenges. While a structural integration is easier to plan ahead, the same is more difficult for a cultural integration. Since both integration processes determine each other mutually, where the cultural integration defines and influences the structural one, the integration strategy must be both process-oriented and be able to consciously anticipate problems and to pursue clearly defined goals. This is how an accurate and well-planned M&A process, based on the business requirements and the financial and strategic goals, would lead to a better and effective implementation of a post-merger (see VISCIO ET AL., 1999).

For these reasons, it is necessary to carefully deal with both dimensions to guarantee the creation of an integral system.

2.3.4. "Fit" and its Meaning to "Soft Issues" and Integration

The so-called "fit" of companies has a fundamental impact on the effect of "soft issues" and with it on the difficulties of the whole integration process. These are sketched in the following:

- "Friendliness and hostility" in an M&A was analyzed by BUONO & BOWDITCH (1989). They assume that the degree of hostility correlates with the organizational and social problems as well as with the importance of "soft issues". PRITCHETT (1985) believes that the degree of resistance to an M&A affects the importance of "soft issues"; he thus developed a system that categorizes the degree of friendliness/hostility into four different categories, namely: "Organizational Rescues", "Collaborations", "Contested Situation" and "Raid". PRITCHETT adds an additional classification to his system, namely "the Incline of Resistance", which measures the level of resistance to a transaction as well as the number of resources (time, money, and capabilities) that are necessary for a transaction. Following this model, an "Operational Rescue" is the most cooperative type of an M&A, whereas a "Raid" is considered to be the most hostile one.

- The difference in the size of the various enterprises undergoing a merger plays a major role. If a big enterprise merges with a small one, then the smaller will be more culturally and organizationally dominated the bigger the size difference between the two. In the most extreme case, an M&A will involve a merger in which the smaller company will be simply affiliated or will rather exist as a subsidiary.

- A poor organizational, strategic and cultural fit (how well do the structures, the strategic orientations and cultures of the companies fit together?) results in making the integration process more difficult.

- Further “fit issues” such as the level of diversification, the previous experiences of take-overs and other demographic factors (e.g. the composition of the workforce) have an additional influence on the problems arising with an integration process. These, however, and due to the limitation of space, will not be further discussed here.

3. Problems/ “Issues”

3.1. Winner and Loser – One-Sided Idealization

Traditionally, companies were seen as an institution in which the respective individuals of the company work towards a particular goal (see the sociological literature: PERROW, 1986; BUCHANAN & HUCZYNSKI, 1985 and the economic literature: DOUMA & SCHREUDER, 1991). This idea, however, is increasingly no longer shared by scientists. Although the whole group should be working on fulfilling a common goal, oftentimes the various managers and departments within the company are more or less having other competing sub-goals. To make the decision-making process in a business as efficient as possible, the different sub-goals and their consequences should therefore be considered in the light of the “big” common goal, and supported and redirected accordingly, so as not to jeopardize the success of the company. An M&A can result in even more differentiated and competing goals that can end up in an internal conflict.

Psychologically speaking, the conflict between the parties involved develops as a result of individuals selectively perceiving their environment while having a hard time adapting to the new one and preferring to stick to the more familiar. Self-criticism is known to be difficult. In the case of a competitor taking over and culturally dominating the acquired company, the employees of the latter company will idealize it, whereas the acquiring company will be perceived in a bad light. As such, the mutual relationship is characterized by arrogance. As a result of this idealization grows a corresponding resistance against the restructuring process under the supposed "worse" organization. Moreover, the M&A itself can be idealized, which would thus result in unidentified problems that arise due to the lack of self-criticism. In the end, the perspectives of the parties involved are subjective, making an objective strengths-and-weaknesses analysis infeasible, while highlighting the differences rather than similarities.

3.1.1. External against Internal Competition

Prejudice is a fundamental problem for the successful merger of companies. When existing competitors are taken-over feelings of prejudice are even deeper. The perception of the other company(ies) is blurred by a long-standing unrealistic and negative image. Consequently, the "other" company is still perceived as an adversary and with a merger an external competitors thus becomes an internal one. The fundamental competitor relationship thus remains and is as such in fact directed internally within the company itself. Work is hence directed against the company's own people, while ignoring external competitors during this time. Since this perception of competition is based on existential fears of individuals, it also depends on the level of the hostility of the take-over. With an increasing level of hostility, the management and employees of the acquired company do not support the merger and are more tempted to sabotage the integration process, since they fear more for their own careers and positions that may be jeopardized with the added competition.

3.1.2. Cultural Dominance

The most obvious problem in the integration process is in fact the clash of the company cultures and their irreconcilable differences. The basic foundations of a culture include not only ethics, morals, aesthetics and language but also religion, law, art and economics. As a result of the increasing internationalization process, the number of companies taking part in a merger is to be found more frequently in different countries with different cultures. Moreover, the individual companies can also act in different market categories. This all can result in the companies being completely different not only in terms of culture, but also in terms of market specialty and therefore some of the "old" business processes might not be adequate for the "new" company. Correspondingly, the clash of the different company cultures will be reinforced in the presence of cultural dominance. Cultural dominance is particularly found in the case of an acquisition. The acquired companies become almost fully assimilated by the acquiring company, since the acquiring company would consider itself economically superior and to have apparently been more successful in the market. As such, the acquisition is an expression of its superiority and for this company the acquisition will have almost no social repercussions. From the perspective of the acquired company, the situation is totally different. It stands there as a weaker company with little control over the acquisition and bears the main weight of the change and restructuring processes. Moreover, in the most extreme case the acquired company has to simply integrate in the acquiring company. A unilateral name change will, moreover, reinforce the feelings of a one-sided adaptation of business goals and process that is officially internally and externally announced. This problem of cultural dominance is stronger – as in the case of the feeling of competition – the lower the participation of the management of the acquired company in the acquisition. This also means, the more hostile is the acquisition, the stronger the feeling of winners and losers and resistance on the part of the acquired company.

3.1.3. Egocentrism versus Acceptance

Within the idealization process of one's own company and detestation of the other(s) there is also a general lack of willingness to better understand the other company(ies) in terms of culture and ideas as well as their successes and failures. In addition, a feeling of powerlessness is created; the realization that one has no influence in the process of the M&A. As such, the manager of the other company decides upon one's own future, the working process, etc. after an acquisition.

Familiar ways of working offer a high degree of identification and security to the employee that help manage the daily workload. As such, exactly in that period it is more difficult for employees to accept the additional workload caused by the M&A and to let go of established values and accept new working procedures. Many employees resist the M&A and become unwilling to exhaust the necessary effort for a successful integration.

An additional problem is the lacking willingness to pass on knowledge to the "other" part of the company. Individual tacit knowledge is the basis for superiority and thus dominance. Hence, specific knowledge is an expression of power and security that guarantees the own existence. Consequently, individual employees place their own interests and that of the team above that of the company and hold back important information since knowledge is the power that individuals are unwilling to give up easily. This is especially the case if the individuals are under the impression that the "other" company has a hidden agenda; an impression that is enforced by the non-transparency of the integration process. Moreover, the employees fear that the agenda includes the closure of their own working place and entails mass lay-offs of their own employees. Consequently, teams and employees isolate themselves from others thus creating islands in the individual departments.

3.2. Change, Fear, Insecurity, Resistance

3.2.1. As a Result of Loss, Ignorance and Excessive Demands

Basically, the element of "fear" arises in an M&A in three closely-connected parts: The first part is based on the fear of loss. It is important for individuals to maintain the level that they have thus far achieved through their work. Status, power and financial security play herein a fundamental role. The second part is the fear of change, namely from whatever is new and unfamiliar. Change increases the likelihood of the loss of well-tried/working modes of work and thereby this fear correlates with the fear of loss. The third part is the fear of responsibility. When a person has not enough confidence in his own abilities and fears that he would no longer be qualified for his position, then this fear will again lead to the fear of loss (see, DR WOLFGANG STÜRZL & PARTNER, 2003, the “triad of fear”).

Various processes of organizational positioning-, personal selection-and-nomination are at the heart of the integration process. As a result, up to 40 percent (CARTWRIGHT & COOPER, 1991) of the employees end up no longer working in their original positions or take on different responsibilities/functions, since function areas have been combined together or the number of managerial positions has been reduced as a result of creating a unified hierarchy. In addition, high demands are made to the workforce in leadership positions that supersede their professional skills. It is not important that a manager is for example the best administrator, but that, especially in the post-merger-phase, he is capable to assume his actual responsibility as a manager (see section 4.5.1). This redefinition of leadership involves many uncertainties and fears.

Moreover, even within the hierarchical levels, the amount of stress and its effect are expressed differently. The management staff has a better outlook on the future during an M&A process, and though they have much more to lose, they are usually more versatile and have more career options. They are usually properly reconciled in the amicable parting from the company with the so-called “golden handshake” (see YERMACK, 2005). Managers at lower positions are often more tied to their positions. The same holds for older employees, whose chances of finding a new job decreases with each passing year. These are indeed most affected by the M&A and the subsequent restructuring process, and thus endure the greatest stress.

3.2.2. As a Result of a Lack of Information and the Incorrect Behavior of Management

Poor communication and lack of information can amplify the sense of fear and insecurity, and this information vacuum thus leads to speculations and rumors. In the post-merger phase, the M&A is already publicly announced – as has been shown prior – yet it is only in this phase that the actual implementation is planned. Consequently, managers do not volunteer information in this period and avoid making any concrete statements. This causes the stakeholders involved in the M&A to think of the potential repercussions resulting from the M&A. Both unsatisfied and anxious employees, but also external critics use this period of uncertainty to negatively affect the views and expectations from the M&A and try to steer-up stakeholders. It is additionally problematic if in the case of several companies being merged that the employees of one company are better informed than those of another. This may cause misunderstandings and rumors between the uninformed staff. Thus they may believe for example that since they are less informed their workplaces are going to be outsourced to the other company and therefore it is simply not necessary to inform employees that will soon be ousted.

Moreover, especially the post-merger phase calls for fast and flexible action, but if senior executives engage in power struggles and haggling over positions due to being placed under severe pressure, the rapid creation of clear structures and new hierarchies might be inhibited. The lack of information on competencies and the decision-making processes increases the confusion and uncertainty of employees and thus also the resistance against the M&A. The management mostly responds with platitudes to the uncertainty of the employees and thus gets lost in unclear communication and meaningless statements. It further runs the risk of acting arrogantly or of giving the impression of an arrogant attitude. In this case, the management dispenses of clear and open communication concerning the course of action, the current results and objectives. Employees are thus becoming increasingly insecure and troubled by the lack of focused information. However, too much information in the wrong time can also lead to confusion. In addition, the communication of information is very formal because of uncertainty concerning the decisions made by the management. Thus the informal communication and also the flow of information are impaired, which may also negatively affect the communication from bottom to top. This especially occurs in the case of increased lack of confidence and fear of the management. The company is hence unaware of its current situation and runs the risk to operate according to an illusion. The lack of consistent action creates additional uncertainty if companies are not integrated, but merely added. As a consequence, this may result *inter alia* in the merger of units that operate very remotely in the market.

3.3. The Consequences of the "Merger Syndrome"

3.3.1. De-motivations, Blockages, and Work Quality

During the integration process the normal day-to-day business has to be maintained, yet an additional burden is added through the problems and transitional arrangements associated with the process of integration. This entails additional burdens on employees creating blockages that result in a decreased work performance and poorer quality of the day-to-day business; this in turn has financial consequences on the business: if, for example, 1000 employees waste half an hour a day thinking about their future prospects and make speculations about all possible consequences this would mean the loss of 500 hours per day, around 10,000 hours per month and circa 220,000 hours per year. This means that, at the cost of 80 Euros per working hour, an additional cost of 17.6 million Euros per year and 800 Euros per employee per month is added on the company. As such, the workflow is increasingly hampered and the work productivity drops drastically as a consequence. Although each person reacts differently to the resulting burdens of an M&A process, yet some do not feel up to requirements. This increased level of stress negatively affects performance thus resulting in low productivity and increased rate of mistakes. Moreover, more employees resign as a result of dissatisfaction with the job and the poor working environment.

These problems, such as low productivity, poor working environment, resistance, negative behavior and defeatism is referred to in literature as the " 'merger syndrome' (see MARKS, 1997). According to APPELBAUM ET AL., the "Merger Syndrome" is a phenomenon first documented by MARKS & MIRVIS (1985, 1997) and is characterized by an increased centralization and decreased communication by management with employees." (APPELBAUM, 2000, p.650)

3.3.2. "Exile of the best, merger of the rest"

Termination is the final step of an employee. In principle, it is important to differentiate between voluntary and involuntary termination. In an involuntary termination, the employee would be advised to leave the company or will be offered a new subordinate position so that he eventually quits. In the case of voluntary termination, on the other hand, the employee chooses to quit the company out of his own conviction. He expresses with this step his dissatisfaction with the new company or the associated lack of perspective of the new company. Moreover, he expresses his inability to identify himself with his new position or generally with the new workflow.

As already mentioned, the main burden is shouldered by the acquired company since, due to the synergy effect and the subsequent cost reduction through the rationalization of equal positions, employees of the acquired company are more likely to be laid off. Moreover, most workers in positions that are not in line with the planned or required goals of the new company risk to be laid off. As a result of the already mentioned time constraint and the lacking preparatory training for the selection process and the subsequent poor quality of the selection process, both low-and-high performing employees are affected. This will result in the company missing out on important high performer and innovation leaders and will eventually end up in a lack of role models that employees can identify themselves with. If an employee is forced to leave a company involuntarily, this would transmit a feeling of uncertainty to the rest of the employees. If this leads to a feeling of injustice, it would further lead to frustration and de-motivation of the rest of the employees. This attitude or impression will be reflected both internally and externally and will eventually harm the reputation of the company. Both employees and management alike focus on their own self-preservation. At this stage, only survival and perseverance instead of productivity are of importance (“inner-immigration”).

In this phase, more competitors try to woo away skilled employees from the company. The exodus of managers and employees means a loss of human capital, of high performers, and role models for the company, who – though crucial – will be missing in the post-merger phase.

Based on the aforementioned lacking structures and unclear fields of expertise, the freedom of managerial personnel is greatly restricted and active action is minimized. In the case of a take-over, the management of the acquired company is additionally restricted in its flexibility by the requirement of the acquiring company without considering whether these measures of the latter are in fact better. Financial losses are, however, rarely the reason for leaving the enterprise. In addition, because of the over-hasty decisions in determining the positions of the new management, high performers that have been ignored in the positioning process might not cooperate with their new managers and consider their work situation as unacceptable. Consequently, they opt to leaving the enterprise.

3.4. Integration Speed and Quality

During the integration process, the rate at which the company adjusts to the new situation is of fundamental importance for a successful integration and an efficacious M&A. In a study by PRICE WATER HOUSE COOPERS (see SHAY ET AL., 2000), 79 percent of the interviewed companies stated that the integration process should have been promoted faster. In practice, however, it is difficult to quickly implement this knowledge, since important decisions could be made in a rush, though the post-merger phase in particular leaves little time and margin for decision-making. Focus therefore is not made on the essential pragmatic and goal-oriented actions, and scheduled regulations are usually implemented in a rigid rather than a flexible manner; a maximal solution is sometimes better than a too late optimum at this stage. In addition, the inadequate treatment of "soft issues" slows down the integration process.

Speed is important, but poor decisions lead to escalating negative impacts on customers and employees, such as a hasty, inscrutable and poor selection process. After this, many employees suffer under an inapt management and from its decisions. For this reason, speed may not be the only aim, and one should avoid ending up in pure activism. Clear quality criteria are thus to be defined.

3.5. Summary

Finally, "soft issues" are to be found both at the corporate level and at the individual level, and can be structured as follows (see Table 3 on page 31)

1. At the corporate level, "soft issues" are mainly the result of prejudice against the other company (or companies) and a simultaneous idealization of the own company. This is triggered by the failure to understand other corporate cultures and is enforced by internal competition and cultural domination. These are "emotional" soft issues. In addition, we may find "rational" soft issues as a result of structural weaknesses, for example, caused by structural defects and ambiguity regarding the own and others' fields of duty, flaws in the selection process of personnel and the rigidity in implementing the integration process.

2. Also, on the individual level, "soft issues" can be subdivided into an emotional level and a rational level; each can be again divided into

	the company level		the individual level
rationally determined	structural inadequacies, such as unclear definitions of competences, mistakes in the selection of personnel, rigidity in the implementation of the integration process	unspecific	workload, lack of quality
		employee-specific	negative manipulation by the management (rational stimulation), feeding of negative “background information”
		manager-specific	restriction of the flexibility of the management and its competencies (lower salary and less freedoms)
emotionally determined	prejudice, one-sided idealization, misconceptions of the “other” culture, cultural dominance, internal competition	unspecific	types of fear, loss of ideals and the feeling of home
		employee-specific	deficient behavior and negative manipulations by the management (emotional stimulation), loss of role figures
		manager-specific	restriction of the flexibility of the management and its competencies (humiliation and dishonor)

Table 3: Levels and Dimensions of “Soft Issues”

two sub-levels including both employee-and manager-specific, and non-specific “soft issues”.

- At the *nonspecific emotional* level, the uncertainties about the integration process and the associated three forms of anxiety (fear of responsibility, fear of loss and fear of change) play a fundamental role, as well as the loss of “old ideals”.

- At the *employee-specific emotional* level, the demeanor of the management, in particular (i.e. how arrogant it acts during the processes) plays a role, since it reveals to what extent employees are valued. In addition, the migration of role models has a severe impact on the attitude of employees. Restricting the flexibility of managerial staff and their responsibility, leading to a loss of image are to be found at the *manager-specific emotional* level.

- The work burden, which is also increased at the expense of quality, and the subsequent errors of hasty and rigid decisions are unspecific and cause deliberate resistance at the employee-specific rational level. Also on the manager-specific rational level, restricting the flexibility of the personnel and curtailing the skills involved has an impact.

- The negative influence of the management on the employees regarding the reasonableness of the M&A involves both the *non-specific rational and the emotional* level.

4. Solution Approaches

4.1. Creating an Awareness of the Problem of "Soft Issues"

Decisions made on "soft issues" are considered by most managers according to their role in the general agenda. This usually includes questions such as: Is the treatment of soft factors favorable for the company image or are there any legal restrictions (see FRENCH & BELL, 1984)? This illustrates that "soft issues" are often considered as secondary and are rarely truly integrated in the overall planning of an M&A and its "business policy". For managers, the essential problem with "soft issues" seems to be their determinability on an exclusive subjective basis instead of an objective one, as would be the case with "hard issues". A study of the LONDON SCHOOL OF BUSINESS and EGON ZEHNDER (see HUNT ET AL., 1987) showed that the influence of "human resources" (as being part of the "soft issues") is largely neglected during the progress of the M&A.

This result was confirmed both by the data, which took the entire process into account, as well as those that only focused on certain phases. Two-thirds of the respondents said that social components played no role prior to the completion of the deal. The other third involved the "human resources" in the final stage of the M&A, but rated their role as being marginal. Another study done by the Conference Board (U.S.) (see McSHULSKIS, 1998) found that after the actual merger, i.e. in the post-merger phase, only 20 percent of the respondents have reported that "human resources" play a moderate role. About 80 percent said that these problems are only relevant as the deal progresses.

On the one hand, the managers involved believe that integration is only a matter of careful planning, that the process could be designed in detail *a priori*, and that the implementation of new hierarchies entails automatically a smooth implementation of the rest. Second, it is assumed that the creation of an enterprise is equivalent to the creation of a product. Yet, the very fallacy is that a company is not an inanimate object, but involves a complex social system. Human behavior is unpredictable and adapts to the circumstances at different rates. Individuals think for themselves, organize themselves and have an interaction with their peers. Therefore, the outcome of the integration process is difficult to predict. In order to create a company, managers must dispense with the idea of creating an artificial and mechanized company.

Nevertheless, it is possible to influence the process of integration. People need a clear vision, goals and targets to be achieved. In periods of fundamental and numerous changes, the company's vision is of great importance to keep employees on track. A positive vision raises the employees' morale and assigns a common goal to them. In addition, the appropriate social, technical and economic conditions have to be created. Since the creation of a new company, as well as the integration process of the M&A can hardly be planned ahead, an enterprise has to evolve from (organic) internal growth, while structures only guide this growth process. At the outset, managers need to recognize the abilities and interests of their employees and the difficulties of the integration process. In the case of good management, the desired synergies can be achieved and several individual companies turn into a common unit. In the case of bad management, the M&A causes great harm to all stakeholders. This is illustrated by the frequent failures of expected M&A goals.

Managers need to realize that any means to improve the company's performance, has to be considered as an investment and that even "soft issues" should be adequately assessed as such. Their importance should play a vital role for managers in charge.

4.2. Culture and Identity

4.2.1. Definition of Corporate Culture and Identity

The culture of a company makes it unique and gives it a certain personality. Culture is often perceived as something intangible, like the personality of a living being and therefore appears as being difficult to be estimated. In addition, it is in constant evolution, similar to a human being.
A culture is made up of three levels:

- The visual level, such as the design of the building and its corporate offices or the dress code of the staff. This level already provides preliminary indications about the work process.
- Values that are represented by the members/employees of the company.
- The philosophy and world-view, which evolved from the interaction of the company with its environment and its history of successes and failures. This level is mainly affected by the industry, in which the company operates.
- An additional factor is controlled by the country, in which the respective company operates. Thus, the national culture, as well as the institutional system, local traditions and the regime influences the organizational culture. The culture and identity of a company are highly intertwined. However, both are not the same. In the scientific literature, many definitions of "corporate identity" can be found. BIRKIGT & STADLER define identity as "the strategically planned and operationally implemented self-portrayal and behavior of a company towards the interior and exterior, on the basis of a given company's philosophy, long-term corporate objectives and a defined target image, with the intention to express internally and externally all actions taken by the company in a unified framework" (Birkigt &

STADLER, 1994, p. 18 translated from German). Identity is thus to be understood as the combination of the company's strategy and its culture. There are different types of identities (see Olins, 1978):

- Monolithic identity: all parts of the company have a single identity, that is, the company is perceived as one unit.
- Brand identity: the different brands of the company constitute an independent unit.
- Endorsed identity: subsidiaries have their own identity and the parent company is not immediately recognizable (e.g. Ford and General Motors).

Staff surveys can reveal the most common issues, fundamental questions and perceptions. On this basis, management recommendations can be designed. Those tools should be used that analyze the decision-making process, the learning process, etc. of the respondents. Furthermore, it can be clarified whether any fundamental cultural differences exist on the base levels.

4.2.2. The Integration of Corporate Cultures

Theoretically, there are four possibilities to integrate corporate cultures:

- The companies may merge their cultures into one.
- The acquired company (or companies) assimilates the culture of the acquiring company.
- An entirely new corporate culture may be created (uncommon).
- The companies will retain their culture and remain thus culturally isolated.

Depending on how closely the parts of the new company interact, on how different the cultures are and on how homogeneously the company should act, one of these solutions is to be preferred over the other.

TRICE & BEYER describe the problem caused by the integration of corporate cultures as follows: "If internal subcultures are diverse and in conflict, and that diversity is helpful to an organization, or if some subcultures whose cooperation is needed are outside the organization, an integrative form of leadership is needed to manage the diversity. Some integrative leadership involves top managers who pull together diverse interests from inside and outside organization; this leadership has been described as consensus leadership." (see TRICE & BEYER, 1993, p. 284).

It can be generally said that the formation of a uniform corporate culture takes several years. So the new company has to successfully create a buffer between the different cultures. In the case of "consensus leadership", the various subcultures within a company are not unified, but a compromise is found, to guarantee cooperation in a "new" company, thereby allowing subcultures to preserve their independence (see TRICE & BEYER, 1993). This type of management is, however, highly demanding for the management. It is required to act as an intermediary between the subcultures, comprehend and coordinate them as well as possible in such a way that the workflow is only barely negatively affected. The proper degree of independence and cooperation between cultures has to be found. In addition, several business subcultures may co-exist in a company that alienate stakeholders, such as customers, due to different working styles and negatively affect the relationship between them. It is therefore important to create a framework for dealing with stakeholders, to recognize the interplay between communication and culture, and thus to provide sufficient information about and between the existing subcultures.

4.3. Organizational Structure, Rules and Functioning

Mostly an incompatibility of corporate cultures is pretended to serve as a scapegoat for the failure to overcome entirely different problems. If the corporate culture is defined exclusively by different organizational structures, management styles and ways of working, it is indeed based on behavioral patterns and not on national or collective social beliefs. Oftentimes, the issues generally range from structural questions to a simple expense report. This adherence to certain behavior patterns is, in turn, rooted in the fear of change and uncertainty that has been already addressed. However, individual behavior is more flexible than collective beliefs. By minimizing uncertainty and making information on the upcoming changes available, coupled with appropriate forms of motivation, employee behavior can be changed, or at least channeled into productive paths. This may happen based on new concepts and incentive systems. For this purpose, it is necessary, first, to find the key and critical operational differences inside the individual companies. These can be discovered by the operating style analysis (see WAHLEN, 2006). This analysis should already be carried out in the pre-merger phase in order to detect serious cultural differences, so-called "Cultural Landmines", in time, i.e. before the actual M&A, and to anticipate the negative consequences in an early stage. At this stage, however, access to information of another company and its employees is very limited and it is therefore difficult to perform this analysis before the actual M&A; as such it also part of the post-merger phase.

Initially it is important to develop detailed plans and implementation strategies in order to optimize the business process of the new company. This requires a unification and integration of the work processes. Either the existing structure of a company is taken as a guide for the new company or a new structure is created. It may happen that the successful old ways of working are unsuccessful under the new conditions. Thus, new ways of working, values and norms have to be developed. This means that the integration process can be only be successful in compliance with these new standards.

4.3.1. Dimensions of Organizational Structure

The organizational structure provides the general framework for cooperation in a company by defining the rules of its various parts, their way of interacting and the distribution of tasks. Three important dimensions of organizational structure are important (see FREDRICKSON, 1986):

- Complexity: determined by the number of department, hierarchy levels, etc.
- Formalization/regulation: the number of regulations within the company.
- Centralization: depending on the decision-making process and the distribution of power within the company.

If these dimensions are formally set, we speak of a formal network. In the case of an M&A, the companies may differ fundamentally according to these dimensions of organizational structure. If the organizational structure of one of the "old" companies is taken as a model for the new company, the strain on the employees exercised by the transition is greatest for those, who need to adapt to the new structure. If the companies have, however, operated in different areas, and thus the composition of the customers or the development process of products in the original companies have been quite different, it is difficult to simply implement the structure of one of the "old" companies. When creating a new structure, it is important that this structure is not too complex to prevent uncertainties about the divisions of responsibility, about the information lines, etc. that would impair the work process. Employees tend to use the informal network in this case. A new organizational structure, which is understandable for the employees, also prevents the formation of islands and holding on to old ways of working and hierarchies. As a consequence, in the presence of a clear structure, it will be improbable that employees refer to their former superiors, although in the meantime a new superior is in charge. To prevent that employees abuse gray areas in the organizational structure for their own purposes or make the inadequacy of the organizational structure responsible for their own negligence, it is important to make the organizational structure tangible for the employees, to structure it as simple as possible and to facilitate reporting to the management. An understanding of the new structure is mediated by adequate information.

The transition to the new organizational structure consists of preparatory measures, partly fundamental changes and especially a large number of interlocking steps. These should be defined in a clear, comprehensive and efficient manner at the beginning of the restructuring, since it is necessary in certain areas that the new structure is changed from one day to the other. Thus, it is important that employees know about their role prior, and be able to carry it out thereby avoiding many problems in the transition. It is helpful to document the description of the role of individual employees and the changes and tasks created by the integration process, so that employees see what is expected of them in writing.

Cross-divisional task forces assume, in addition, the creation of an organizational structure. Their task is to implement structural adjustments, firstly, to create the expected synergies through rationalization and secondly, to increase the quality and performance of the working process by revising outdated ways of working. This requires proceeding with due diligence and systematically while respecting consistent implementation and the introduction of new working styles. The implementation and distribution of tasks, i.e. the timing, is the responsibility of the respective project leaders (DAIMLERCHRYSLER SEMINAR: SENIOR MANAGER, 2003).

4.3.2. Project Teams and Monitoring the Integration Process

During the pre-merger phase, project teams are created that support the integration process. These teams are composed of a few selected managers and employees from all companies involved. In the post-merger phase, additional project teams are formed that are used to become familiar with the other company in order to understand the structure of its internal processes, products and technologies. Once these areas are assessed, a plan for the remaining procedures is created.

Since managers and employees from all parts of the companies involved work together in these project teams and are supported by additional employees, an early understanding of the partner company evolves and the construction of an internal cross-network is encouraged. In addition, participants of the project team are able to effectively participate in the creation of the new company, and also have a relatively free access to confidential data, based on which they conduct their analyses. The results are then passed on to the line managers (see GERDS & SCHEWE, 2005). These line managers direct the implementation of the solutions developed by the project teams.

The individual project teams should be subordinate to a central project team and the latter should be managed centrally to increase the speed of integration by scheduling and monitoring the individual project teams. The central project teams determine the rough schedule for the integration process in the specific departments. The latter schedule the implementation details in a next step, integrate these into the master plan and monitor the progress and the timely implementation of the detailed measures. However, in order to reduce the pressure on the project teams, the central project team takes care of the cross processing of problems and issues related to the fusion process. It controls the integration process of multiple business units, the internal and external communication and the information of both the management and the stakeholders. The decentralized/subordinate project team is responsible for the planning, implementation and control of a business unit and informs the central project team. The department and line managers are in charge of the concrete implementation of the integration process, since here the individual measures will be implemented.

4.3.3. Development of Organizational Rules

The creation unified organizational rules is necessary for the formation of an organizational structure. As such, a company can be seen as a construct of various forms of behavior that emerge from the different experiences of its stakeholders (thus not only the staff and management). These experiences, and thus the behavior of individuals may be entirely different in nature. Out of the dispute that can be both formal and informal (the latter in the form of the famous “water-cooler effect”) and the emerging consensus arising thereafter, internal regulations evolve that ensure that stakeholders work towards common goals through coordinated operations (see MARCH & OLSEN, 1979; WEICK, 1979), who would otherwise act completely independently. A clear hierarchy between the rules should exist in order to know, when in doubt, which rule should be preferred over a contradictory one. This set of rules dictates the general organizational rules, which are then used as a kind of template for the behavior between each other and towards others (see HUBER, 1991). This process of creation and re-creation of permanent organizational rules on the basis of individual behavior can also be considered as a form of a learning process; a process of social experience. An interrelationship exists between personal experiences and those of the company. The company generates knowledge in the form of codes of conduct and ways of working based on the transformation of human experience (cf. LEVITT & MARCH, 1988) and creates, in turn, new experiences for individuals and rules for the enterprise in this process.

4.3.4. Development of Organizational Knowledge

This also shows, however, that companies are unable to learn actively, but only through the transformation of individual experience into an “organizational memory” (see WALSH & UNGSON, 1991). Individual knowledge is constituted of conscious and tangible knowledge, and partly of unconscious knowledge, i.e. tacit knowledge in the strong sense such as intuition. Thus, the individual unconscious knowledge is not simply transferable from the individual to the company and can only be used by the company if this individual actively participates in the work process. Yet, supported by reflection on the part of the employee, unconscious knowledge can be turned into conscious knowledge. This conscious knowledge can be integrated more easily into the organizational knowledge. This is necessary, since the creation of organizational/business knowledge, organizational rules and working procedures ensures the basis for a joint knowledge of all individuals involved, which is the basis for an efficient collaboration among these individuals. In an M&A, individuals are working together with different organizational backgrounds that were originally hired through different selection processes in different companies and may be accustomed to a different corporate culture and workflow. This implies that they have a low level of joint knowledge, which, as addressed prior, is however necessary to ensure an efficient collaboration. This is ensured by the creation of a joint inter-organizational knowledge (see HEDBERG & HOLMQVIST, 2001). However, it is difficult for the management to "command" a joint knowledge. It is achieved through successive mutual actions and negotiations of individuals during the integration process.

An M&A adds yet a third kind of knowledge: Since individuals have gained their experience and knowledge in different companies, a kind of inter-organizational knowledge and experience is created that is specific to the M&A. As a result, two sources for acquiring information exist for the new company:

- Conversion of individual knowledge
- Conversion and integration of organizational knowledge of the "old" into the new company

Thus, the success of an M&A is also defined by the ability to obtain information and knowledge from the stakeholders and also to process it. A first step in this direction is in turn a sensible information policy and the generation of feedback loops (see also 4.6.). Both the new company and the employees need to be transparent in their knowledge in order to benefit from joint learning. Thus, the different parts of the new company should be receptive to the experience and practice of other parts. Exactly in the case in which differences are large, the new business gains by joint learning; yet especially here we find the major resistances of the individual groups. In the integration process, it must be ensured that the joint professional and informal knowledge of the employees of all the participating companies is included. Through inter-departmental project teams, employees from all sectors participate in the creation of the new company, thereby causing a process that fosters coalescence and familiarity.

4.3.5. Informal Networks

Additional to the formal organization structure, also an informal structure exists in the old companies. Networks provide an alternative to the classical linear-hierarchical-functional organizational structures because they can be used similarly goal-oriented and systematically. The difference is that these are based on self-control, and thus behavior and attitude effects play a major role. Informal networks are more suited for tasks, for which the classical structures are less adequate, because social networks are defined by a large number of nodes that make use of the reciprocal links. This can help to systematically spur social developments, such as cultural and attitudinal change in the new company.

The imprecise divisions of responsibility, the number of channels of reporting, which evolve out of the integration of several companies into a new one, make it even more difficult to work in the post-merger phase. This is especially the case, in which e.g. a company of originally relatively small size was defined by a very clear and simple structure. One way to reduce these problems is the creation of an informal network. For this it is necessary to develop programs and "events" that promote informal networks by creating trust and loyalty between different groups. The rotation of employees, such as the regular change of tasks and work environment for managers, offers an effective way. In addition, the development of a new structure (or the implementation of the old structure into the new company) requires that stakeholders, such as customers, still know their contacts and partners in the new company. Hence, a program has to be developed, which assigns clear responsibilities and ensures the necessary infrastructure (see AHLEMEYER & KÖNIGSWIESER, 1997; SCHMIDT, 1993; BOOS ET AL., 1992). To effectively implement the integration process, also the old informal network should be integrated into the new company or a new informal network be promoted. Due to the M&A, new informal networks and new unexpected alliances may arise. Therefore, it is important to analyze the following questions:

- Who owns which informal position and is this person an informal information hub?
- For how long has this person been in this position?
- Are there employees or managers who still have an informal position, even though they have actually left the informal network already?
- Who has received a position through whom and were these positions achieved by favorism?
- Whose work is more appreciated by the employees/managers and whose has been less appreciated?

In turbulent times, social networks offer the ability to overcome the limits set by the hierarchy. In the scientific literature, it is even contemplated whether revolutionary developments may have developed outside of the organizational structure.

4.3.6. Team Networks

Another alternative to promote informal networks is the creation of team networks that are composed by participants from all areas of the company. The team members help design the new structure and are representatives of their particular group. Hence, everyone can take influence on the process. In contrast to classical structures, these teams organize themselves. The creation of team networks, however, requires certain conditions. Initially, the top management must decide which tasks should be tackled and what is fundamentally necessary in order to achieve the planned objectives. Once these fundamental questions are settled, the management must deal with the change in leadership, because it has no longer the role of a central control system. Thereafter the underlying concept is communicated within the company, making the step towards creating the network compulsory.

After the formation of the different teams and the public communication, the top team is chosen. It is composed of the representatives of the top management and the employees, and has the duty to support the teams and supply the basic requirements. Consequently, only the framework and basic strategies are determined by the management. Since the teams are self-organized, internal communication and a comparison of practices is necessary. In addition, the team members must be trusted, since they cannot be centrally controlled, yet their work is an important foundation for the new company. Thus, the creation of such a team structure is a sign of confidence in the employees' skills. Employees recognize that they have a say, are taken seriously, that the process is set in motion, and that they are involved in it and thus also in the development of their own future. This creates a sense of responsibility and the feeling of joint achievement, and gives rise to an informal set of rules that does not possess the rigid form of conventional rules, such as fixed reporting lines and clearly defined competencies. It turns out that communication is the fundamental element for the success of this structure, since it determines how confident the different levels of the hierarchy (middle and lower management employees) are and how close the collaboration is between the teams. Meetings between the participants of the teams and one or more members of the top teams serve as a basis for the ongoing communication. The top team is involved in these discussions and receives constructive criticism and suggestions on the current situation of the process and its future planning. The management thus illustrates that it is willing to accept external advice and criticism and has confidence in the staff. It further shows that it is open to alternative solutions that are created by the open structure of the self-organization of the team.

Although the number of participants and the basic skills of the team are determined by the management, employees are additionally motivated by the fact that the team recruited its members through its own selection process and by the various skills of the team members emerging during the working process, in addition to the trust placed in them and the sense of individual responsibility and the participation in organizational change. All this contributes to the change of attitude and motivation.

Motivation also arises from the following reason: The further the work of the teams proceeds, the stronger the pressure to legitimize themselves. Initially, the teams require some time to optimize the working processes (internal communication). Thereafter the teams begin to communicate externally. The team members must now legitimize themselves to those employees, to whom the teams assign additional tasks, by showing what they have achieved. Moreover, employees outside the team are interested in the course the team members have set as their representatives and whether they take account of their concerns. External communication is therefore essential to convince the "outsiders" of the relevance of teamwork. The management motivates and supports the team members by clarifying the seriousness of the situation and their mutual importance, but also by providing a clear vision of the future. Additionally, the management externally communicates the need for the team to the "outsider" employees.

During the presentation of the work accomplished by the team to the top team, the employees are offered a “stage” on which they can “display” and “sell” themselves. Young people can prove their ability in the operational work process and make a mark in front of the top team. The top management’s attention is attracted to eligible employees who otherwise would have been overlooked. During these presentations, all levels of the company are in contact. Executives are questioned and put to the test, and the managers are made aware of their dependence on the staff. Since their knowledge is usually wider, but more general and shallow than that of the employees, the managers may not be able to process in detail the concepts of the staff that go deeper and are focused on specifics. Managers, however, possess oftentimes the greater farsightedness and overview. Thus, the audience realizes the relationship between employees and management. During the presentation, the management gets an overview of the current state of the teams. They realize whether the right goals are pursued and achieved, and whether it is necessary that both the management and team members rethink their strategies. Employees receive the impression that the management decisions are not taken arbitrarily, but are aimed directly at the problems and successes of the team. It turns out that all team members are interdependent, i.e. that it is necessary to learn together and from each other, both for the good of the team, and for the good of the company. Each team member is responsible for his team and represents it to the outside. Hence, it is important that conflicts and opposing opinions among the team members are discussed and resolved at an early stage.

With each coordination meeting between the team and the top management, the state of the team becomes clearer. The teams will now learn not only internally, but also from each other and are motivated to acquire knowledge through mutual competition. A tremendous expertise and knowledge is thus generated. For many tasks, it is difficult to pinpoint specific areas. Thus, the question arises, for example, as to where the order acquisition process ends and the order completion process begins. Networks create the necessary interfaces by using cross-axis structures that exist in parallel to the conventional linear and organizational structure. Without a close communication between the teams, the work without clear boundaries would be only moderately successful.

The problem is, however, that the self-organization of the team allows for passing on responsibilities. Neither well-defined superiors, nor a clear allocation of responsibilities are defined from the outside. The lack of a hierarchy of command can be compensated by competition of the teams through the external communication with each other and by creating an awareness that team members do not want to appear as less capable than those of other teams during the presentation of their work in front of the top team. Hence, the teams mutually check themselves from within. Additionally, the communication with the other teams illustrates in which way others have solved these problems. The teams motivate each other through the involvement of employees and their work quality.

Another advantage of networks is reflected by the fact that decisions are not made by individuals but by teams. By building bridges between the teams and thus cross-links within the network, and also due to the non-subordination of a team under one person, a manager for example cannot directly intervene in the working process. He requires the support of the team and also of the associated teams. Consequently, self-centered views, such as in linear structures, are not fosters but rather team collaboration. In addition, this creates consensus and solutions are found in the network that would not have been found in a conservative structure. The network creates an environment in which mutual respect and common understanding of the members lead to better achievements than selfishness. Due to the open communication, "lone fighters" are quickly exposed and find themselves in a worse position than before in the network. Only the unit can survive, not the stronger. To summarize, it can be said that networks are based on the interaction of teams and individuals, while a linear organizational structure relies on linear leadership that points only in one direction. In networks, the aim is group formation and cooperation, whereas in a linear organization, the basic idea is defined by the individual and self-centeredness. After laying the foundations, an initial training and team building, the network is self-perpetuating and expanding, thus creating new links.

4.4. Teaming

4.4.1. Teambuilding, Participation and Autonomy

The term "synergy" goes back to the Greek word "synergein" and means 'collaboration'. In order to achieve the desired economic advantages, social synergies should not be lost out of sight. Conflict solution strategies that require a high degree of team building and participation in the decision-making process assist in reducing the conflicts between the individual companies during their merger. International research shows that people identify themselves more strongly with the change processes, if they are allowed to participate in designing them. TYLER & LIND (1988) have further illustrated that people, in this case, also support the change processes if these are against their own interests.

The integration of employees should not be reduced to a mere single-sided assimilation, but teams should be created that share commitment in achieving objectives. The merging of cultures can neither be decreed, nor be put in a time frame; cultural integration can, however, be actively encouraged.

In order to render the integration process transparent, managers of the higher echelons should teach and inform those of the lower tier, and thereby explain the respective expectations, goals and the steps necessary to achieve those goals. The direct contact offers the possibility of direct feedback and initializes team building. After the former step takes place, each team submits proposals for designing the change process and for determining time frames, which will serve as a reference. Yet, the team members should still be provided with sufficient freedom and independence in their decisions. On the one hand, the way in which the workflow is designed in a team has a large impact on the team development (e.g. whether the staff only works together with the staff belonging to the same former company or no subgroups are formed and everyone interacts with anybody else); on the other hand, the joint solution of problems and a common sense of achievement are important stepping stones for the integration process.

4.4.2. Virtual Teams and Stages of Team Development

Specific features of social communication are important for team building. Team members do not only get to know each other by simply communicating, but also by perceiving certain peculiarities of the others, such as the change in the rate of speech and pitch and also through non-verbal communication (see BALES & COHEN, 1997). Team formation takes place not only during the work process, but especially during the remaining time (e.g. coffee gossip and joint lunch). However, due to the increasing internationalization process, it is no longer guaranteed that teams will work together in the same physical locations. These virtual teams do not have a face to face contact. HANDY (1995) stated, nevertheless, that physical contact is indispensable for the creation of trust, and that it is the basis for the creation of a real common bond. This raises the question of whether the spatial deficit can be offset by modern technologies.

The use of “groupware, email” and “e-communities” offers effective alternatives (see KLING & JEWETT, 1994). Nevertheless, misunderstandings and problems among members may occur (e.g. by a lack of non-verbal communication or asynchronous e-mails). SPROULL & KIESLER (1991) have found out that the team composition, the bond between the team members and their mutual confidence are essential for good team performance. However, the team composition is more diversified in virtual teams, since the members can be much more different in terms of their social and cultural characteristics and have no common past, which may also have a negative impact on performance.

Team development is divided into five stages (according to the group theories of social psychology, see e.g. TUCKMAN, 1965) and provides an appropriate theory to understand the development of the sense of belonging and social obligations:

- In the “Forming Stage”, the team is set up.
- In the “Storming Stage”, members strive for influence and prestige in the team hierarchy.
- In the “Norming Stage”, a common system of settings, rules and a common workflow are established within the team.
- In the “Performing Stage”, focus is placed on tackling the actual task.
- In the “Adjourning Stage” the team will be dissolved and/or its composition changed.

However, due to the physical distance in a virtual team, these stages are observable in a slightly different form. The managers of these teams must find alternatives to compensate for the lack of face to face interaction and to create mutual trust and responsibility. Since the formation of a team is goal oriented and requires the cooperation of all members, trust is the basic building block for the team formation. This is particularly vital in the case of a virtual team, but it is additionally difficult to achieve due to diversity and greater uncertainty. Accordingly, it is important that the team members encounter each other in meetings, exploiting the face to face contact, in order to solve problems and to develop and maintain relationships, which is otherwise impossible because of the physical distance. These meetings help especially in the Forming and Storming stages, since the direct contact accelerates the development of standards of cooperation and working processes. In addition, it is important that members are acquainted to a multicultural context, if the team is composed of more diverse members. Thus, cultural “misunderstanding” and language ambiguities can be neutralized. What may be said and intended is not always equivalent to what is heard and understood. In addition, certain cultural practices may exist, which are not understood by other cultures. As such, “soft issues” and “hard issues” correlate in this case.

By synchronous transmission, the modern means of communication (such as video conferencing) can today also convey the feeling of physical presence over long distances. However, such “meeting” planned in advance, are thus unspontaneous and organized prior because of time constraints. It thus lacks the “coffee klatch” component. In addition, the isolation, perceived during the work process, and the possible absence of direct assistance caused by the lack of contact may lead to de-motivation. Hence, regular face to face meeting may create more confidence and motivation at work, since problems are more likely to be addressed and formally and informally discussed with each other.

4.5. Leadership

4.5.1. Common understanding of leadership/vision and the responsibilities of the leadership personnel

In addition to the requirements of “Consensus Leadership” (see 4.2.2), there are other necessary conditions for a successful M&A: The parties involved should develop a common understanding of leadership. This strengthens the sense of belonging, that is, a common identity, and defines clear objectives for the future of the company. Only in this way, it can be ensured that the vision underlying an M&A can be achieved in the long-run. While each division may have its own goals and strategies (for example in a “brand” or “spread identity”), this vision, however, is the actual reason for an M&A. Therefore, all managers should know and share this vision and work together towards its achievement. The workforce in leadership positions are role models, who affect, by their attitude, the views of employees and their development in the integration process, especially since the process of information exchange takes places through them as multipliers. They control the adequate qualification and the necessary expertise of staff.

Since the integration process is a complex process in which many factors play a role, managers in particular have the important task of ensuring that guidelines are adopted in a timely manner and that targets are satisfactorily met. They are the ones responsible for the coordination, hold together the threads of the whole integration process and promote this process. In addition, they need to take over tasks of the integration projects during this process, since these projects cannot take care of all the underlying details. Ultimately, those in leading positions are thus often burdened with multiple tasks at the same time. They must ensure that the daily operations are maintained relatively smoothly and that they fulfill their management tasks accordingly. Leadership means in this context:

- Creating a functioning working environment;
- Locally managing organizational change;
- Coping with conflict and crisis situations;
- Managing and controlling;
- Creating flexible working conditions and hours;
- Relieving employees

Furthermore, they continuously need to clarify during the process if problems and thus reason for correction arise. Following DILTS (1993), the following levels occur:

- The level of the common identity and vision: Who? (Who are we and who do we want to be? What are our intermediate and final goals?)
- The level of values and beliefs: Why? (What is important for us and what do we believe? Which rules impair or promote change?)
- The level of skill: How? (What are our capabilities and which do we need?)
- The level of feelings and behavior: What (How do we feel and act? How do we achieve the next emotional level? How do we realize that we have changed?)
- The level of the environment: Where? When? (How do we respond to changes in our environment and how does it react to us?)

In order to prevent mistakes and wrong decisions, the management needs to formulate termination criteria in advance in order not to run the risk of continuing projects which have no prospect of success. In self-organized project groups, it is important that the project leader, who directs the group through his social competence, has a high level of integrity and demonstrates his own willingness in order to secure and increase his reputation and credibility.

Furthermore, the project leaders must support the employees, who suffer an additional physical and psychological burden during the merger, and ensure that the integration process affects as little as possible the external reputation of the company (e.g. customer complaints), because that would additionally increase the negative stress on employees and managers. These management tasks are additionally made difficult by the fact that no theoretical preparation or prior exercise of the situation is possible and the post-merger phase is problematic to forecast. In principle, decision makers should be permanently aware of their task and should not appear to be inconsistent and indecisive. This implies greater demands for the manager, because they make decisions about projects that are uncertain due to the persistent changes caused by the merger. As illustrated previously, the integration process involves people with different backgrounds and readiness for change. This requires managers to be flexible, to have a sense of timing and to act strategically. However, managers should also perceive the integration process as an opportunity. Especially in this process, leadership skills are obtained and trained that are normally acquired only after years of experience in the daily business. Executives need to be adequately prepared for the fear and resistance that have been identified before the merger announcement. The initial euphoria should be channeled and the development of latent fears and resistance should be limited. In teams, experts and psychologically trained employees can create the necessary awareness among the team members and it can be ensured that "soft issues" do not leave the focus.

4.5.2. Models, Identification and Integration Incentives

Managers should be assigned a unique area of expertise and to a clear organization structure. Thus, the individual positions can be filled with staff that is capable to take on their necessary tasks as role models and is convinced of the necessity of those integration measures found significant based on the "Value Driver Analysis" (see e.g. Mercer Human Resource Consulting). This establishes a neutral position with a solid foundation of trust at the very beginning of the integration process, and supports a goal-oriented and consistent implementation of personnel decisions in the new company that are also accepted by the employees. Employees are more willing to accept such measures, if the behavior of their role models is in accordance with their demands. For this reason, the allocation of positions should not create the feeling of being determined by relationships and quotas. This is especially important in the upper levels of the hierarchy, because a wrong choice may have repercussions through the entire structure down to the bottom. In addition, internal quitting of knowledge holders and managers can be reduced if they can participate in actively designing the new company and if the new company is able to convey a stronger sense of belonging and identification.

Incentives must be adapted specifically and individually to the various levels of management, due to varying fears and perspectives, as has been illustrated earlier. If these incentives are linked to the critical integration measures that have been defined by the "Value Driver Analysis", the dynamics of the integration process can be fostered. It is not necessary that the incentive system is solely based on medium-and-long-term incentive plans or royalties. It can also include improved opportunities for personal development and stronger participation.

To motivate managers and employees in a company, the following measures should be taken (see also Schein, 1978):

- support the staff in their own career and personal development
- promote development by fostering experience in different working areas and the creation of knowledge and skills
- appreciate employees with good knowledge and qualification
- inform about the career development
- consider the personal development of employees as important

The management is a role model for the employees. Although mergers are mostly based on rational considerations, the understanding of employees, however, is not simply appealed to by purely rational arguments. Management should thus focus on feelings and convey the impression that its decisions are fair. If employees lose in the integration process, it is required to create the impression that there are no exceptions, not even among the management, i.e. that everyone has to "endure an approximately equal amount of pain." This creates trust and collegiality and promotes a common identification with the new company. (The implication is: We all give our "blood and sweat" in order to create this new company). If everyone complains on equal grounds, a feeling of equality and justice is created among those affected.

4.6. Information

4.6.1. Communication of Information and Transparency, Feedback Loop

In the context of "soft issues" limited rationality plays an important role for the distribution of information. Individuals differ according to their educational, cultural, and industrial imprint and therefore assess situations from different perspectives. As such, it may happen that certain matters are of importance for some individuals but have little meaning for others and vice versa. Accordingly, important information may not be regarded as such and will not be passed on. To avoid this, an infrastructure must be created that minimizes these problems. Once the basis of decision-making for the M&A is discussed in an efficient and purposeful way, and thus the basic questions concerning the staff and organization are clarified as quickly as possible thereby keeping the period of uncertainty short, the drastic changes for the stakeholders are communicated promptly and clearly. Especially in the post-merger phase, it is important to stabilize the integration process through open communication and to preserve the credibility of management. Only few stakeholders believe that an M&A proceeds without pain. In addition, early communication limits the spread of rumors and speculation, and thus the external and internal uncertainty as well as resistance. In addition, an early and open information exchange about the prospective restructuring ensures that the selection process of personnel conveys a fair impression among employees. This prevents uncertainty of employees and their unwanted termination. Different stakeholders have different concerns and viewpoints. For this reason, the type of information must be adapted to the particular stakeholders. First, the individual concerns and misunderstandings should be identified. Thereafter, it is important to know whether the employed communication measures target these issues. This requires the correct timing and the right amount of information content in order to avoid additional uncertainties. Unlike before, offices are flooded with communication due to the new technologies and a growing momentum in the workflow. This is precisely the problem, i.e. information has to be processed in such a way that it is not lost in the general flood of communication of this time and age. For this reason it is necessary to separate important information from other less important ones. The rule should be as follows: A person who is closer to the center of decision-making requires more detailed information than others that are situated further away: An employee of the sales requires *inter alia* more information regarding in which way customer transfer and information will be organized as part of the merger, which new products will be added and which skills are required for his future work. He does not require information on the technical details of the underlying IT process or project structures.

It should be communicated that conflict is a normal part of the integration process that can, however, be solved jointly and fruitfully. It is also important that a continuous dialogue exists between the advisory board, the work council, the senior management and the employees about the progress of the M&A. A communication strategy can improve many of the problems addressed by specifying requirements for a successful project-related communication. This supports a constructive integration and the necessary qualifications. It is important to create an insight among employees that the integration project both recognizes the problems that arise, as well as develops the necessary solutions and implements these in practice. Yet, it should be also clarified what the project cannot do. Initially, a discrepancy exists between the acceptance of the employees and management, since the projects and their objectives are usually designed by management. In order to minimize the discrepancy, it is necessary to inform employees about the content and the status of the project and also to involve the staff actively in the project work. Thus, the employees are more open-minded to the implementation and have the feeling of producing something jointly. Above all, it is important to create acceptance for the integration process and to mobilize the employees.

4.6.2. Success Factors of Information Policy

For successful information policy, the following factors are important:

- The date of communication
- The definition of target groups and of means of communication
- The creation of a feedback loop

The first communication should take place as early as possible in the post-merger phase to support the credibility and acceptance of the M&A by the employees and to inform them about ongoing integration projects systematically and continuously to reduce uncertainty and defiance of the employees. Early communication is still not easy to ensure, since it requires the necessary lead-time, *inter alia* a website has to be programmed and print media need to be printed and processed. Information sessions are reluctantly held at the beginning of an M&A out of fear of emerging resistances, since it seems easier to present employees with a fait accompli. However, exactly this action is one of the issues analyzed in this work. Accordingly, the communication project should be addressed early and potential delays be scheduled. Yet, it is also necessary to restrict the communication of uncertain decisions and approaches, since any subsequent changes would make the management appear as fickle and indecisive. It is therefore necessary to find the right balance between information and non-information. In addition, information should be continuous, especially of key benchmarks, such as after the completion of important project phases, and especially after the end of the project.

In order to find the corresponding target groups, the formal and informal network of the company (or companies) must be analyzed to find models, opinion leaders, and influential employees. If these individuals do not sympathize with the M&A, they can abuse their influence on the rest of the staff in order to sabotage the integration process. Once these persons have been found, their attitudes can be analyzed and they can then be included in the integration project to foster identification and a successful execution. Target groups can be divided into three groups, namely:

- The first group consists of those people who initiated and devised the project. They are interested in the results of the project.
- The second group is constituted by the project staff and users. Because these are most numerous, it is the main and also the most difficult group. Most of the reasons for failure can be found here, because this group has to operate with the project results. To avoid problems of acceptance, the participants of this group should affect the content and results of the project.
- In addition to these groups, there are those people, who are indirectly affected by the project (other stakeholders).

Means of communication are separated into the “push and pull principle” (see BECKER ET AL., 2001). The push principle directly addresses employees and the communicant is the active part. The pull principle turns the employees into the active part, i.e. they are required to obtain the necessary information themselves. This pull principle should serve as a background for the information provided by the push principle. In order to convey the information appropriately, the communication media should be used in accordance with the target audience and the use of the necessary information media should fit the relevant project phases.

It is important that employees are actively involved in the projects and that information does not only flow in the direction of employees, but also in the direction of the project via a continuous dialogue between employees and the project team. This increases acceptance of the employees for the project and trust of its members and the staff in its successful completion. Furthermore, feedback loops should be established to determine the current mood and the working atmosphere among employees. This is necessary in order to identify in time weaknesses and problems of the project implementation. There are several ways to install a feedback loop, such as through personal or telephone interviews, through questionnaires on paper or digitally via websites.

Generally, we can say that communication "flanks" the integration project and forms its main basis. Not holding back, but providing explanation and procurement of background information and contexts helps create the necessary acceptance for the integration process. The mood of employees correlates with the openness and speed of the information policy. Additional acceptance is created by a personal statement of the responsible department directors. In the end, it is necessary that the obtained results of the project are implemented by all employees, who are involved, hence ensuring a successful implementation.

4.7. Feelings

4.7.1. Channeling Fear and Resistance

People are not reluctant to change, but to the feeling of being changed themselves, and to reaching a point of losing self-control. According to the theory of cognized control, people are guided in their actions by the ability to predict and influence events (cf. FREY & IRLE, 2002; FREY

& GREIF, 1997). This urge is driven by the desire to control one's own existence. Accordingly, change processes that externally affect someone personally, are considered hostile, because they seem neither predictable nor influenceable. If the employee does not know the causes and reasons for the change process, he cannot identify with it. This generates fear and resistance among employees. Managers must be aware of the fact that processes, which involve the emotions of the parties involved, cannot be constructed on the drawing board, and thus cannot be hoped to be implemented as planned. The concepts of change are not the problem, but their implementation is. It is necessary to align the changes to the course of the process. The integration process fails due to ambiguities about the purpose and the objectives of the process on behalf of the employees, but also due to the lack of knowledge of their own responsibilities, tasks and future development opportunities and the loss of confidence in the new processes that these will entail. It thus creates space for fear and resistance. Adequate information can generate an initial euphoria in some of the employees during the pre-merger phase, which can be used to overcome fears, uncertainty and resistance. With the help of professional guidance, it is possible to use even anger and resentment in a constructive manner (see also PÜHL, 1994). Latent fears and resistance should be addressed at an early stage to prevent that they do not become fixed and difficult to overcome. This is especially true for employees with low self-confidence, who are only able to confront the challenges of an M&A to a small extent. These challenges are caused by the double workload of daily routine and numerous additional tasks in the integration process. In addition, the raised fears and insecurities have an emotional impact. For this reason, employees should be encouraged by their managers to build self-confidence. This can be done by not only illustrating realistic future career prospects, but also by showing that the M&A process itself is a possibility for further individual development. It should be made clear to them that they are not victims, but that they rather have the opportunity of actively shaping and taking control of their own futures. Measures must be taken to strengthen the self-confidence of employees and thus to turn fears into hopes. Leaving the employee enough freedom for creative decisions and individual actions reduces stress and prevents the problems caused by it. The employees are expected to deal with uncertainty by showing improvisation skills and flexible responses. The staff's integration process is divided into three phases:

- The preparation and learning phase (that generate hopes and prospects showing the required qualifications)
- The actual restructuring
- The follow-up and monitoring phase (to what extent did we implement what we wanted?)

If global changes are not yet possible at this time, it should be communicated to employees on the basis of a pilot project, in which way the integration process and the associated transformation processes should take place. After the successful completion of the process, it will be extended to the other parts of the company. On the one hand, the employees are shown that the announced changes are truly intended; i.e. the change process finally becomes a reality and will be put into practice. This creates an "atmosphere of departure" early on, even in other parts of the company. On the other hand, by looking at the pilot project, employees and managers can observe in which way the implementation is planned and how it works in reality. This renders the integration process tangible and motivates employees and managers, once it becomes evident how useful and powerful these changes are. If parts of the project were successfully implemented and positive results are clearly noticeable, and its acceptance increases in other parts of the company, eventually even a feeling of not wanting to lag behind, and thus a conscious willingness to integrate, starts to emerge. Furthermore, the information media could be used as a positive stimulus.

Important experiences and contents, as well as important phases of the integration process can be transmitted through the company's own business TV. The medium of video provides the ability to address the subconscious and emotional part of people. In addition, there are other media such as info flyers, emails, etc. that can be exploited to provide information; each having specific advantages and disadvantages. It should, as already mentioned, be ensured that the information is not lost to an overload, but is mediated to a target audience. In the end, this implies that information and emotions must be conveyed without redundancy and by using the most appropriate medium. In addition to these media, the establishment of a direct local support, such as a hotline can be helpful. This effectively and steadily strengthens a smooth conversion process. Thus, employees for example, who are unaware of the responsibility and the new organizational structure, can be informed via a central information telephone number. Additionally, even in the case of a takeover, a feeling can be created that the employees no longer belong to the old entity, but are rather an integral part of the new company. This can be done by not simply adopting the operations of the acquired company but by building on these operations and further developing them.

Another means is to use the inherent human desire for recognition. If employees have the feeling that they are recognized by the management and their efforts are rewarded, and, in addition, if a positive attitude towards the new structure is actively supported by the employees and the necessary skills and knowledge are acquired, employees will thus participate actively, which will then result in their willingness to consciously integrate (see 4.7.3.). Success is a good motivational tool. If the employees and managers realize that a small victory is won, and that this is recognized by the outside world, they are more inclined and motivated for the following steps to come (see HABECK ET AL., 1999). Therefore, also here communication plays a vital role, since the smallest achievement should be communicated accordingly.

4.7.2. The Seven Stages of Emotional Development

It is a futile approach to suppress emotions such as fear, anxiety, grief and non-acceptance, because they are an expression of emotional development, which employees and managers traverse. These feelings serve to progressively deal with the new situation and form the basis for reaching the next "emotional level". During the period of change, employees are overwhelmed with an extraordinary feeling of emotional tension that needs to be overcome. These employees pass through seven phases with characteristic emotional patterns (see CEVEY & PRANGE, 1999, and Figure 3), as follows:

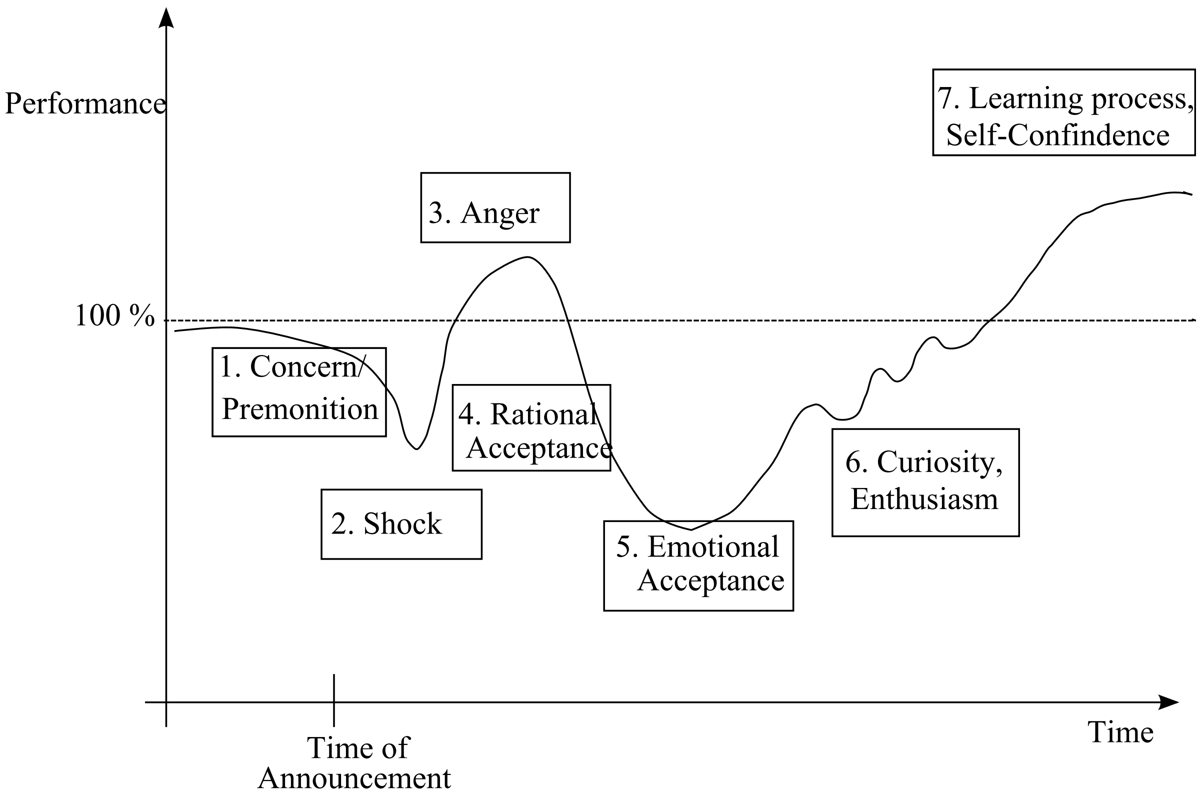

Figure 2: The Seven Phases of Emotional Development

I The first phase is defined by ***concern or apprehension***: Employees are aware that a change is imminent, though it has not yet been officially communicated. In this phase, employees worry about their jobs and their future, which seem uncertain. This phase provides much room for speculation and rumors.

II The second phase is ***shock***: The changes will now be officially announced. The staff realizes that a change is definite. The person concerned feels paralyzed by the shock.

III In the third phase, ***shock reverses to anger***: Those suffering cling to the status quo that is believed to offer them security. They thus begin to deny the extent of the required changes, which may result in a short-term increase in productivity. The staff believes that through increased efficiency, the management may be convinced that a change is not required. Thus, also the need for their own change is not accepted by the staff.

IV In the fourth phase, ***the need for change is rationally accepted***: The parties involved, however, have not yet confronted emotionally the requirement of personal change. In order to overcome the current unpleasant situation as quickly as possible, change is focused on trivial points. Hence, success is absent, leading to frustration.

V In the fifth phase, ***emotional acceptance follows rational acceptance***: Those affected understand that there is no way back. The change is inevitable for them as well, since they have tried everything possibly to avert the change. The employees feel unmotivated, crestfallen, depressed and focus on their grief over the past. This shows that grief is an emotion that occurs on the verge of re-orientation. It is the central emotion of the change process, which initiates the next emotional phase.

VI In the sixth phase, ***the way is open to new ideas***: The exploration of new horizons and experiences creates the urge for change and a departure from the past. After the initial enthusiasm has worn off, the new goals are addressed from a realistic perspective. Initial setbacks are considered as experiences. There is a continuous learning process and an increase in productivity.

VII In the seventh and final phase, ***this continuous learning process increases the choice set for the employees and management***, because they are more effective and operate better in the new environment. Success increases self-confidence, the willingness to change as well as fosters productivity.

Each emotion corresponds to a specific type of coping for those affected. It is therefore important to know and understand the emotions in a group and team. Accordingly, the appropriate means, (i.e. at the right time and place and with the right framework), need to be provided that support the transition from one phase to another to prevent that those involved get stuck in a certain emotional phase. Resistance indicates a certain phase of emotional processing; it reveals that energies are blocked, requiring the need for optimization, but also provides the information of where it can be found. Anger shows especially that acceptance of the need for change is absent, since it is unjustified in the eyes of the employees. Anger is another emotion to deal with the process of change, as it promotes the exchange of views; i.e. anger fosters communication among and between those involved. The perception is not focused on the self, but on others. Hence, the changes are discussed with colleagues, creating a new horizon of perception for the own position.

Concern for the one's own future represents the increasing loss of control over one's own destiny. Risks are contrasted with opportunities and employees try to cope with uncertainty. Dealing with emotions such as anxiety and uncertainty is very important. If the level of concern is too low, it may happen that the urge to change is not perceived correctly in the company, leading to passive behavior. If no concern exists at all, ignorance of vital information about the change are not processed and thus endanger changes. If the level of concern is too high, those affected are paralyzed and unable to maintain their productivity. The right level of concern can, however, provide the required energy for change. To exploit this level of concern, the parties involved must first be made aware of the need for change. This requires, on the one hand, a clear and open communication (see section 4.6.), on the other hand, anxiety and concern can be recognized by appropriately stimulating informal communication and thus creatively focusing and encouraging their energy potential. It turns out that informal structures are of great importance, since they correspond to the nervous system of a company, and are significant for the potential to change, to resist and to being loyal (cf. MOHR & FRITSCH, 1998). Frustration illustrates that the change process is stalled in certain places, i.e. that some problems hinder change and need to be addressed. Ignorance worsens the problem. It is thus important to look at the implications of change and to promote personal reappraisal. After identifying the causes of these emotions, appropriate means and procedures can be found that take account of the interests of those involved, without jeopardizing the change process.

In the period of mourning, the parties involved must be made aware that they are on the brink of something new, paving the way for a "better" fresh start. Separation rituals ease to relinquish the past. This does not imply that one's own past and what has been created should be degraded, since this would create defiance and hinder the transition to the next phase. It would also promote the previously described situation, in which there exists a feeling of "winners and losers". What is proven should therefore be included in the integration process, to reassure both modifiers and preservers.

In the period of "opening up", it is important that in spite of all the enthusiasm, the sense of reality is not lost. This means that those involved should be aware that a potential risk of failure may still be present. Particularly the management runs the risk of hastily pushing forward and idealizing the integration process and thus to overlook (serious) issues and problems. Therefore, an ongoing performance feedback is necessary (see, e.g. DILTS, 1993 in point 4.9).

4.7.3. Opportunities for Staff, Training, Development

It is important to provide staff with a perspective in the new company. This also implies that the necessary opportunities for development are provided. Firstly, these involve the use of professional training in order to be prepared for new tasks, secondly, clear professional and managerial careers must be pointed out. This also provides employees with more flexibility on the basis of professional training programs and the prospect of new positions in the company. If the staff is unsatisfied with their new position after the restructuring, employees and managers can prepare themselves according to their situation and advance on the basis of a clearly defined technical and managerial career. Previously, executives should go through a preparatory training for the upcoming selection interviews to prevent errors in the selection process. Dismissals of employees have a negative impact on the corporate image. In order to avoid this, fair treatment must be ensured at least on the outside and reasonable care in the selection process should be promoted. Even if the employee's lay off is justified, his departure should take place with a loss of face.

During the integration process, employees and managers are confronted with many innovations; for example, as part of this process a new application is installed. It is important to qualify all employees according to the new tasks during the implementation of the integration project. In addition to the project-related communication concept, framework conditions within the new firm foster the exploitation of project results by all employees involved. The organizational changes must also include the possibility for the project participants to pursue a career path to a key position. Thus, incentives for the successful completion of the project are created, ensuring reintegration into the old or a new promising career path. Under the condition of a large number of employees, it is difficult to provide the necessary resources for training and instruction. Therefore, it is necessary to create a training concept that includes self-study. The employee should be first taught the necessary methodology and appropriate materials should be made available to assist him in the learning process. The continuous work with these materials and the evaluation of the learning progress should be monitored by managers. In addition, individual members of a team could be formed by special training. They are then specialists who help their employees actively in the learning process and provide feedback and clarify uncertainties.

In order to maximize the involvement of employees for the good of the new company, they should be offered, as mentioned prior, the possibility of an active career development. It is thus necessary to inform the employees about their career path (see ROWBOTTOM & BILLIS, 1987), to make them aware which aim they pursue in order to utilize their abilities in the best possible way, and be rewarded for it. It is therefore however important to inform them whether their chosen career path is well-suited to their abilities and their value system (see STUMPF, 1989). If the employee has chosen a career path, the requirements should be clearly defined (see JACKSON, 1990). In addition, an adjusted salary system creates more incentives to participate in such a project.

4.8. Increasing the Speed of Integration

During the progress of the M&A, a kink in the performance occurs due to the previously mentioned measures and processes. To minimize it, there is need to initially focus on major changes in the post-merger phase by rapidly and efficiently accelerating the necessary measures for the integration process, (known as accelerated transition, see SHAY ET AL., 2000). But what is essential in this case? Most essential are those points that cause the kink in performance, thus those mentioned above. In order to ensure a quick and targeted integration, it should be focused on those measures that provide the greatest contribution to minimizing the performance kink and generate the greatest value enhancement. The “value-driver analysis” provides the appropriate tool for accurately filtering out these factors, and minimizing the vast list of integration measures to those of real importance. Firstly, the necessary costs are estimated; secondly, the interrelation of the measures is clarified; and, thirdly, realistic time estimates are envisaged for the transformation period and after a final analysis priorities are set. Through this process, an additional acceptance among managers is fostered, who then persuade, encourage and motivate the employees involved. Thus, a more rapid identification with the necessary transformations is realized inside the company and thus fusion targets are achieved at an earlier stage. In a case-study by KPMG (entitled (“Akquirieren ist nicht schwer, integrieren dagegen sehr!”, which translates to “acquiring is not difficult, to integrate, on the other hand, is very much so!”), the number of significant measures was reduced to one fifth. These, however, realized about 80 percent of those potential synergies, which possess the greatest probability of realization in the shortest period possible, and include potential for both saving costs and increasing revenue. Through this process, it is assured that neither pet ideas of decision-makers nor actions that are strategically insignificant for the M&A have greater importance, but that limited resources are used for those measures, which can be realized in little time with maximum success. In the end, the “value-driver analysis” improves both the speed of integration, as well as its quality, since it establishes a consensus on which way to proceed, and guarantees that the selection is prudential and sound.

It is important to finalize the integration process, if possible, within a period of one to one and a half years (e.g. DaimlerChrysler estimated about two years for the integration of the hard factors; a conversion occurred after only about half of the time), in order to minimize the cost and the risk of returning back to the original, and apparently “proven”, familiar operation that would thus reduce the motivation for the integration of employees once again. The full integration of soft issues, however, can usually only be considered as finalized after one generation, because managers and staff are still rooted in their thought and actions in the original culture. Only a new generation that has entered the company after the M&A can act completely free of “old ideals” in the new corporate culture.

4.9. Summary

The basis for an effective integration process is formed by a continuous information policy adapted to the problems. Information must be both transmitted outward, as well as internally. Here, the information policy plays an important role at all levels of the “soft issues.” In order to develop a common culture and identity, it creates a mutual understanding of the “old” and “new” corporate culture and the basis for spreading uniform standards and management styles, and thus for a continuous uniform culture. It enables employees to understand and to keep track of the new organizational structure, i.e. knowledge about authority and responsibility, thereby generating and disseminating the old and new organizational knowledge. The same applies to the informal network. Here, too, information creates knowledge on the respective positions of the employees in the network and the location of nodes, and facilitates the transfer of knowledge and solutions.

Another important issue is the appreciation and trust of the staff in the actions undertaken by the management, and the measures and processes that have become necessary as a result of the M&A. In addition, the unclear wording of goals may be considered as “fickleness” of management. At the same time, those affected should be supported to develop the necessary tolerance towards the inevitable uncertainties and the barely inscrutable complexities, since many strategic decisions have to be made during this process. Moreover, coercion generates helplessness and fatalism among those affected. The integration process should therefore also be initiated from inside out:

The need for change must be explained. The information policy should be determined early on and also be used to inform those affected at the beginning of the process. In economics, it is assumed that the individual acts consistently on average, thus as if he maximizes his “utility” (though this utility may include the well-being of others, so-called “other-regarding” preferences). Hence, if the individual is unable to recognize his medium and long term benefits, he will position himself against the integration process.

If information is possible in all directions, it also allows employees to participate actively in the restructuring and integration processes. This conveys the impression of being involved in the creation of the new company. Involving stakeholder creates a sense of “procedural fairness” and “procedural justice” and thus increases the level of identification. In this process, it is not the opinion of the manager that is important, but the assessment of the person concerned. Although the manager may in fact be right, the information might be perceived by those affected in a different way. In addition, participation by offering specific incentives and the motivation to distinguish oneself offers additional motivation for integration. Furthermore, the management receives knowledge on the success or failure of its actions, making both the management and the employees aware of the need for mutual trust and their interdependence. The management cannot control the process up to its smallest detail. It is thus necessary to create feedback loops and to assure communication both from top to bottom, as well from bottom to top. This ensures that the top management recognizes errors and issues at the base level. This prevents furthermore that the process is taking the wrong direction. An appropriate information policy thus creates control, but also trust and understanding in the management, the staff and in the processes. In addition, an adequate information policy renders the change process transparent. However, full transparency is impossible. The information policy must be sufficiently professional that it penetrates all levels of the hierarchy so that rumors and misinterpretations are minimized.

If the top management and management do not jointly support this process, act as multipliers and implement the communicated strategies consistently, the integration process will fail and eventually fall apart. Power games and problems in the selection process regarding the new positions play a major role. Managers are role models and can only fulfill their management tasks, if their conduct is consistent with its claims, thus enforcing mutual trust with the staff. It is apparent that the integration process and the concomitant handling of “soft issues” proceeds according to a simplified pattern (see Figure 3 on page 77).

Initially, it requires consciousness of the problem on behalf of the senior managers regarding the “soft issues”. Thereafter, by using the appropriate information policy and media, the subsequent measures are made clear in a sufficient, but also focused way. The continual information creates a general confidence among those affected by these measures. Trust, which is created by fair decisions that were made comprehensible by the appropriate information policy, increases this confidence. If those concerned can also actively intervene or have a say in the process, acceptance increases in addition to confidence. The staff realizes that decisions are not made without their consent, thus opening it up to the necessary steps, thereby supporting the effective implementation and creating readiness for change. While doing so, the management loses its independence and has to adapt to its altered role of leadership, but the participation of the employees simplifies and accelerates the integration process. In addition, the mutual dependence and the close cooperation between the different levels of the hierarchy allows for checks and balances. Employees realize very quickly whether or not the management supports the processes. If perspectives are presented to the staff and a clear link is established between own success

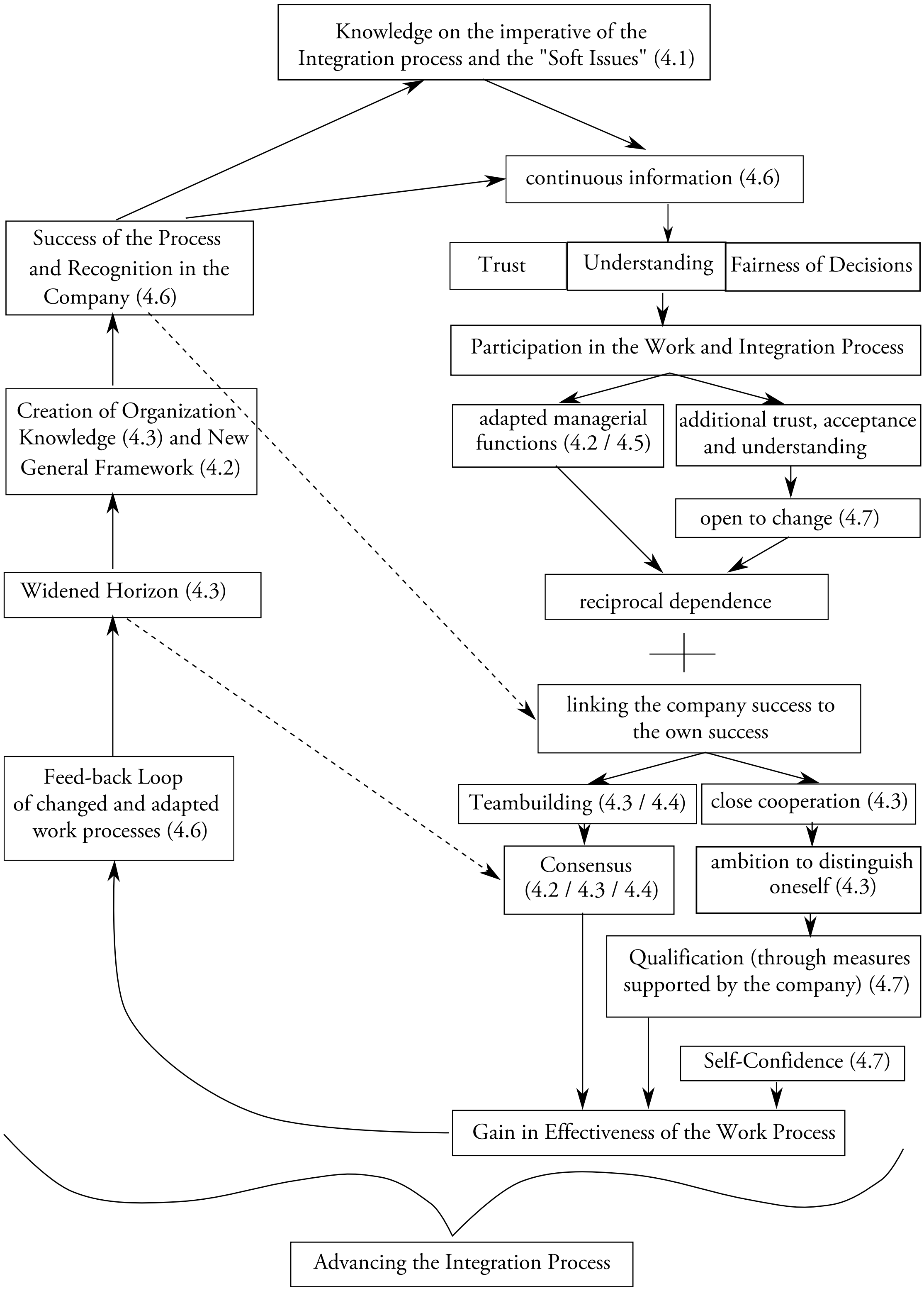

Figure 3: Controlling the “Soft Issues” and the Integration Process (Numbers refer to the corresponding section.)

and that of the implementation, employees are ready to engage constructively in the process, and to distinguish and qualify themselves accordingly. Supported by the employees, the company promotes education and training that provide feedback to the management on the experience of the staff and eventual problems and thus increase the efficiency of the process. This creates capacity for change. Moreover, close cooperation, the requirement for teamwork and consensus promote the creation of new horizons and perspectives among employees generating organizational knowledge.

By forming trust, understanding and self-awareness, and by identifying prospects and illustrating the fairness of the decision and the involvement of all, both employees and management are motivated to take the necessary steps in the integration process. The integration process is promoted and the first successes can, in turn, be communicated and used through an appropriate information policy. Employees are motivated by the appropriate recognition, restarting the cycle.

5. Conclusion

A merger is not an alternative to a clear strategy and does not help in avoiding major problems of the company; the sum of two weak companies does not simply create a single, strong company. Nevertheless, an M&A provides opportunities to exploit synergies and new strategic opportunities. The basis for this is that the companies do not only merge formally.

The main part of the (older) literature bases the success of an M&A on the careful advance planning, in which “soft issues” hardly play a role. “Hard issues”, in contrast, are more tangible since they are easily quantifiable. They represent the motivation for an M&A and show the potential opportunities that arise for the company. “Soft issues” are easily overlooked when focusing too much on the opportunities that arise from exploiting projectable and quantifiable effects. After the pre-merger phase, this approach, however, makes a merger resemble rather "journeys into the unknown" (Cartwright and Cooper, 1992, p.2), than a predictable process.

Here, it has been shown that exactly the disregard of "soft issues" causes the difficulties of controlling the integration process of the companies after the M&A process. Although the first phase of the M&A is rather a centralized process, the actual integration phase (post-merger) is more of a decentralized one and is hardly predictable. This implies that the decision about its success or failure is ultimately made "on the spot" and is significantly influenced by the attitude of the staff. This attitude is severely affected by the way in which "soft issues" are tackled. Furthermore, the occurring social problems should be handled in a flexible way during the process. To ensure this, the problems and solutions, discussed here, should not be ignored. Employees need to "see the light at the end of the tunnel." If "soft issues" are addressed carefully, then the merger of different cultures and types of organization offers many opportunities to learn from one another and to create the basis for an improved performance of the new joint entity. Differences and constructive social tensions serve as valuable resources. If neglected, however, "soft issues" entail many problems and sometimes strong and negative social tensions. They make it impossible to beneficially exploit the strategic opportunities and synergies. The economic benefits of an M&A are thus crucially determined by which manner "soft issues" are addressed.

The approach used here, can be generalized and results can be extended by loosening the restrictions (type of mergers, considered phase, companies, stakeholders) in further analyses. Additionally, the simple model can be adopted and applied to general integration and restructuring processes, which not exclusively occur to M&As.

Another interesting approach to extend this approach is to quantify these "soft" factors. Their direct or indirect effect on the company's performance could be analyzed by appropriate econometric methods. "Hard Issues" provide proxy variables for quantifying the indirect effect due to their correlation with “soft issues”. Once suitable parameters for the effect of “soft issues” are found, this approach can be turned into an analytical model.

6. Theses – Essential Results

1. “Soft Issues” are social and cultural problems that, in contrast to “hard issues”, are difficult to quantify. They affect both the corporate level (merging or creating compatibility of different corporate cultures, work processes and organizational structures) and the individual level (dealing with the psychological problems and the changing work requirements) that occur on a structural and a cultural dimension. Fit (organizational, strategic and cultural fit, but also the degree of hostility, relative size, degree of diversification, previous acquisition experience and demographic factors) is essential.

2. The internationalization process of M&As progresses due to the context of globalization and the growing importance of intellectual and communicative elements in the workflows; thus “soft issues” become increasingly essential. Their neglect is a major cause for the failure of M&As and their handling is an essential factor for a successful M&A.

3. “Soft issues” need to be understood by management as a primary task and be handled accordingly. This requires a sophisticated awareness of the problem, an adequate analysis and knowledge of “soft issues” and an elaborate counteraction not only during the planning and preparation of the M&A, but also continuously during the actual implementation process. This increases demands on the management (i.e. a flexible management style and goals, knowledge of leadership, employee motivation and - integration, awareness of interdependence, channeling of fears and thus knowledge about the emotional stages of the employees).

4. In accomplishing this task, it is essential to overcome the fears and insecurities of the management and staff. This requires, above all,

trust, comprehension and fairness of the necessary measures, confidence in the one's own strength and openness for change. Appropriate measures include a customized and flexible organizational structure, an appropriate management style, participation in the process, promotion of team building, positive motivation, training and education for the changing roles and ways of working.

5. An adequate information policy is the basis for a successful integration and, supported by the number of additional actions, it effectively promotes the M&A. For its success, the time of communication, the definition of the target groups and means of communication, and the creation of feedback loops are important. Suitable information strongly affects emotions, the willingness and ability of managers and employees to integrate, and thus effectively promotes the integration process through the dissemination of new knowledge about processes and rules. The rule of thumb is: inform as much as necessary, as little as possible.

6. The most important phase is the post-merger phase, since here the actual integration process takes place. It is difficult to be planned, however, and therefore makes increased demands on management and staff. In addition to external issues, internal problems arise especially in this stage, which requires a very careful analysis of each arising "soft issue" and a swift and concrete reaction and flexible objectives.

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