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## **Successful Partnerships: A Matter of Experience?**

Frits D.J. Grotenhuis\*

*Statistics indicate that most mergers and acquisitions are not very successful. At the same time, similar reasons for success and failure have been reported over the past decades by different scholars. Frequent mentioned reasons are related to financial or legal issues during the pre-merger phase and cultural or integration issues during the post-merger phase. This far, hardly any study examined the learning effect of previous mergers and acquisitions experiences. This paper focuses on the post-merger integration phase of mergers and acquisitions, and the learning elements. First results indicate that managers can learn from previous experiences and thus increase changes for success of partnerships. Future studies could further explore 'best practices' of how to organize and facilitate the learning process of mergers and acquisitions. Further, concerning managerial experiences, it would be interesting to discern between more general lessons, and context-specific lessons of mergers as well as of other kinds of strategic partnerships.*

**Keywords:** *experience, integration, learning, mergers, partnerships, success*

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### **Introduction**

#### **Partnerships and Success Rates**

In order to survive in the long run, most organizations look for collaboration with other organizations. The types of partnerships may vary from open networks to mergers. In open networks the aim is often at co-innovation projects. In merger situations both organizations become integrated and lose their autonomy to a large extent. In between many other options can be chosen, such as alliances or joint ventures. As a result of changing motives partnerships can evolve over time (Ulrich et al., 2005; Grotenhuis and Kamminga, 2008).

Just like in marriage, expectations are often very high, however, success rates prove to be disappointing. In case of mergers and acquisitions, less than 50% of the partnerships are referred to as a success (Lajoux, 1998). Nevertheless we witnessed an increase of the number of mergers and acquisitions, as well as an increasing value of the transactions over the past decades. Unfortunately, mergers and acquisitions often appear to be non-rational transactions.

Reasons for success or failure can be divided to the pre-merger phase and the post-merger phase. During the pre-merger phase, financial or legal issues often make that parties do not come together. Sometimes personal issues, related to trust (Boersma, 1999), play a role. During

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the post-merger phase, most scientists indicate personal, cultural differences as the bottlenecks for a successful relationship (Tihanyi et al., 2005). Differences as such, however, do not necessarily play a huge role. The impact of differences depends on the degree of integration versus autonomy, and on the way the merger is being managed (Grotenhuis, 2001).

Concluding, many partnerships are not very successful. Most studies aim at the pre-merger phase where legal and financial issues play a major role to explain reasons for success and failure. This paper provides insights in the post-merger integration phase. The focus is on different factors that influence the learning process in order to prevent similar mistakes and thus increase changes for success.

### From Courtmaking to Divorce?

The metaphor of a marriage is being used on a frequent basis as people prepare everything for the wedding day itself and the ceremony. Parallel, organizations prepare a merger very careful during the due diligence stage. However, the moment the merger agreements have been signed, management often seems to think that business will continue as usual, although a new merger combination needs a lot of management attention to become a success (Haspeslagh and Jemison, 1991).

Cartwright and Cooper (1992) identified different stages for M&A that are directly derived from marriage. The different stages are briefly characterized in the figure below.

The parallel is evident: it is about people who have to find each other and to

work together. Further, similar to mergers, many marriages are not successful either. It is about building trust, managing cultural differences, about managing expectations, and clear communication about the motives and desires for both partners. Success is not a single result or point in time, but it is a process that's needs management attention.

### The Impact of Experience

As in marriages, mergers need to be managed and monitored carefully in order to become a success. Especially during the post-merger phase, management attention is crucial. Most scholars agree about the need for active management when it comes to integrating the different organizations (Bakker and Helmink, 2000). Further, some scholars stress the relevance of making use of insights from the due diligence process for the integration stage (Nolop, 2007). However, hardly any study investigated the way (integration) managers can learn from previous merger experiences. Often, integration managers only deal with one or two mergers during their career. This is a pity as their field experiences are very valuable for following integration processes.

Only a few organizations, such as General Electric, have developed dedicated (post-merger) integration management practices (Ashkenas et al., 1998). Most other organizations only build on pre-merger expertise, related to the due diligence stage. The question is, however, how to develop and build on knowledge about merger integration processes in order to learn from previous cases. Think about cultural

Table 1. Stages in Mergers and Marriages

Merger	Marriage
Pre-combination	Courtship stage
Legal announcement of the merger	Announcement of the marriage
Making the merger work	Honeymoon period
Monitoring the success of the merger	Establishing marital allegiance

Sources: Cartwright and Cooper (1992)

differences that can play a role (Hofstede, 1991), or differences in leadership styles. Only a few studies paid attention to the learning process of strategic partnerships (Kam, 2004). The aim of this paper is to shed light on the integration management practice, and about what factors contribute to learning. Two major research questions will be addressed in this paper:

1. How is the integration management practice being organized?
2. What factors play a role in the M&A learning process?

## Methodology

As only few scholars have looked into the learning process of mergers and acquisitions, an inductive approach was preferred above a deductive approach. Two expert panel sessions were organized in order to provide in-depth insights. In this way, with the interaction of different experts in this area, a better understanding could be gained about the integration management practice and what factors play a role in learning from previous M&A experiences. The panel sessions were organized in the framework of a large study into cross-border merger integration processes (Grotenhuis, 2001).

In this section the research approach and methods for data collection are discussed. The expert panel sessions used for this study are closely related to 'Delphi' panels. Delphi refers to the Delphi Oracle in Greece. Originally, Delphi panels were used to forecast technological developments (Delbecq et al., 1975). Delbecq et al.

(1975) describe the Delphi technique as "a method for the systematic solicitation and collation of judgements on a particular topic through a set of carefully designed sequential questionnaires interspersed with summarized information and feedback of opinions derived from earlier responses". Delphi panels can be used (Delbecq et al., 1975) for different purposes, such as:

- to determine or develop a range of possible program alternatives
- to explore or expose underlying assumptions or information leading to different judgements
- to seek out information which may generate a consensus on the part of the respondent group
- to educate the respondent group as to the diverse and interrelated aspects of the topic

Parallel to the Delphi method, the expert panels that were used for this study served to explore or expose underlying assumptions or information leading to different judgements (Delphi objective 2.), and to seek out information which may generate a consensus on the part of the respondent group (Delphi objective 3.).

Two expert panels were organized. *Panel One* consisted of nine managers from the same multinational technology company: three CEOs, two HR managers, and four other managers from various divisions. Except for two people, most of the other panelists knew each other already; the panel formed a relatively homogeneous group. However, it appeared to be more difficult (compared to the second panel) for

Tabel 2. Panel Overview

Panel	Composition	Date
Session 1	Three CEO's, two HR managers, and four other managers within different divisions from a multinational company	November 28 <sup>th</sup> , 2000
Session 2	Two managers from a telecommunication firm, one manager from a bank, and two consultants from a large consultancy firm	December 1 <sup>st</sup> , 2000

participants to express themselves as this panel session was held in English. Another disadvantage was that there seemed to be a hierarchy in the open discussions. The panel was held on November 28<sup>th</sup> 2000 at Eindhoven University of Technology, the Netherlands.

*Panel Two* consisted of five participants: two managers from a telecommunication firm, one manager from a bank, and two consultants from a large consulting firm. Communication was easier than in the first panel session because the spoken language was Dutch (native to all participants), although the written language was English. This made the discussions easier, but no bias (language-wise) occurred in the typed responses of panel participants. Despite the fact that experts from the different companies did not know each other beforehand, it was a very informal session with spirited discussions. The panel was held on December 1<sup>st</sup> 2000 at Eindhoven University of Technology, the Netherlands.

Questions and propositions were raised about integration, and factors that contribute to learning. The panel results have been structured along the researcher's own lines, though these frequently derive directly from the panel sessions. This was done consciously, so as not to distort or misinterpret the panel participants' answers.

In *panel One*, two participants had no experience as the acquiring company, four in one case, two in five cases, and one in twelve cases. Three participants had no such experience as an acquired company, two participants in one case, and four participants in two cases.

In *panel Two*, one participant had experience in three cases as the acquiring company, one in five cases, one in ten cases, and two participants in twenty-five cases. Two participants had no such an experience as an acquired company, one participant in one case, and two participants in about twenty-five cases.

## Result and Discussion

In this section, panel results are described for the different themes. Results of both panels are integrated for each theme.

*Question: "In how many cases in your experience has an integration team or – manager been appointed? In how many not?"*

After the deal, management often withdraw their hands from the merger. In many cases, people think they can just continue 'business as usual'. Success rates, however, indicate this is not the case. Integration management proves to

Table 3. Merger Experiences of Panel 1

Panel 1	Participants	Experience as member of acquiring firm	Participants	Experience as member of acquired firm
	2	0	3	0
	4	1	2	1
	2	5	4	2
	1	12		
<b>Total</b>	<b>9</b>	<b>26</b>	<b>9</b>	<b>10</b>

Table 4. Merger Experiences of Panel 2

Panel 2	Participants	Experience as member of acquiring firm	Participants	Experience as member of acquired firm
	1	3	2	0
	1	5	1	1
	1	10	2	25
	2	25		
<b>Total</b>	<b>5</b>	<b>68</b>	<b>5</b>	<b>51</b>

contribute to the success of mergers and acquisitions (Bakker and Helmink, 2000). Appointing an integration manager and integration team with managers from both organizations, can smoothen the integration process. In *panel one*, four panel participants said that this had happened in about half of the cases, another four said that this had happened in all cases, and one participant said that this had happened in four out of five cases.

In the panelist's experience of *panel two*, this had happened in almost all cases: "In 80% of internal cases yes (larger ones), not in all cases with customers", "Most of the cases, all relevant cases, "100%", "In all cases where we were involved this has been done", "The level of effectiveness varies significantly", and "It is a question of dedication: so-called integration managers are sometimes in fact doing business as usual". Concluding, in about 50-100% of the experiences, an integration manager was appointed, depending a.o. on the scale of the merger. The success, however, proved to depend on the recognition and dedication to integration management as such next to other tasks.

*Question: "In how many cases has attention been paid to culture? And in how many not?"*

Culture is often seen as part of integration management practice. Culture has been referred to as highly relevant for the success or failure of mergers and acquisitions by many different scholars (Leung et al., 2005). Further, several studies indicate that cultural differences do not necessarily play a huge role, depending on the way management deals with it (Grotenhuis, 2001). This may depend on the strategy behind the merger, and the preferred organizational structure.

There were a variety of reactions to this question in *panel one*. Three experts stated

that not in one case that they were familiar with had attention been given to culture: "No attention paid in my single acquisition. This was my main lesson learned!". Four mention that only partial or minor attention had been paid. One expert noted it in four of the five cases, and one expert in one of the two cases.

One reaction was: "We turned down numerous (>15) acquisition proposals because of perceived cultural differences especially with Japanese, Scandinavian and French companies". Another reaction was: "We paid attention to it, question remains whether this delivered any added value, clear communication is far more important".

Also in *panel two*, experts gave various answers. One panel participant: "Most cases not in the past". Other panel participants commented: "In all cases", "The question is not whether, but how do you pay attention, it is part of the change management approach", and "In almost all cases attention has been given to culture, but culture is very complex and often underestimated".

Concluding, in many cases no attention was paid to cultural differences. In these cases where cultural differences were recognized, communication was mentioned to be a crucial factor, and that culture should be dealt with as part of the integration strategy instead of stand-alone.

*Question: Integration versus autonomy: what are criteria to integrate or to keep the acquired entity more or less autonomous?*

When the aim is at realizing economies of scale, full integration will probably be aimed at in order to save costs. Instead, when the aim is at gaining access to distribution channels, organizations can probably remain operating relatively autonomous. Respondents were asked to come up with criteria. Again, the different

items mentioned were later sorted into the following categories for panel one and two, except for the category 'level of risk / managerial capabilities'. The results are integrated and illustrated with experts' quotes in figure 5 below:

Concluding, different motives or criteria are mentioned as being relevant in the decision-making process about the degree of integration of mergers. Most prevalent criteria mentioned are strategy in relation to potential synergies. Other criteria are strongly related, such as business scope, business process, culture and key staff.

*Question: "After how many processes can M&A be learned? Please motivate".*

It appears that some organizations are more capable in dealing with mergers and acquisitions than other. Think of General Electric, who organized their integration management activities (Ashkenas et al., 1999) in order to build on previous merger experiences. In contrast, most companies, if at all, structure and organize the due diligence process carefully. Despite the failure rates, still not many organizations recognize the value of integration expertise.

In *panel one*, three panel participants said that it would take one 'fully digested' M&A process ("...including the proposition phase, the negotiation phase and the 2 to 3 years post merger phase"). Another comment was: "In almost every M&A activity all the different aspects will be addressed, e.g. culture, objectives etc.". Another panel participants said after three cases.

Other reactions were:

"It is like marrying, some people never learn it". And: "Yes the process can be learnt in general terms, rather what to avoid than what to do. There is no substitute for clear goals and strategies from this flow the processes".

Some panel participants mentioned the contingency of M&A processes: "M&A is a continuum as in any discipline and as such the wider the scope of experiences the better the execution of M&A transactions". And: "The basics can be learned by experience after one acquisition, but every other acquisition has his own special items".

Most respondents in *panel two* mentioned after 5, or between 6-8 cases, but

Table 5. Overview of Results on Criteria to Integrate for Both Panels

Criteria	Panel one	Panel two
Synergies	Different types of possible synergies are mentioned. Integration in case of functional overlap, else remaining entities more autonomous	The drivers of synergy should be determined in deciding about the desired extent of integration
Strategy	Depending on the strategy and objectives, more or less autonomy is desired	The major question is what extent of integration is needed in order to realize the objectives? Integration costs a lot of time, money, and effort
Business scope	When the business scope or product portfolio do not coincide remain entities more autonomous	The business model of both organizations plays a role in the discussion integration versus autonomy
Business processes	Depending on communality in business processes, more or less integration is desired	The similarities and maturity of both organizations should be taken into account
Culture	Integrate when you want to impose your company culture	Cultural differences can play an important role in the decision about the extent of integration
Key staff	The ambitions (motivation) of key staff members should be taken into account concerning the extent of integration	The availability of key managers in the merged organization is of utmost importance in order to realize the objectives
Level of risk/ managerial capabilities	The managerial capabilities to integrate should be taken into account, depending on the risks with full integration	-

mainly that this depends on evaluation and feedback: "Research shows that learning after 6-8 has positive effect but that this can decline after this", "This depends to a large extent on the current learning climate and business strategy in the organisation", "Depends: exchange of experiences / knowledge is a positive factor; the main driver is if there is enough feed back to all participants about the process; after any process, suggested there has been an evaluation", "If you go for general insights I would suggest the base for this can be after 5 acquisitions", and "Not so much the number as well as the degree to which lessons were learned, shared and implemented across the organisation (not limited only to 'happy few')".

Concluding, opinions diverge about the quantity and quality of merger experiences varying from one fully digested merger to eight cases. At the same time, respondents indicate the contingency of mergers and that a wide range of merger experiences would be preferable.

*Question: What factors contribute to the learning curve of M&A? Please give three factors that you think are important.*

Hardly any scholars have investigated how organizations can learn from mergers

and acquisitions, or incorporate integration management practices. Often managers are involved in one or maybe two merger processes during their career. When they leave the organization, crucial knowledge and experience leave with them (Grotenhuis and Weggeman, 2002). The researcher sorted the comments from both panels into the following categories:

Concluding, most respondents mentioned the importance of evaluating merger processes, related to M&A previous experiences. Further, the importance of knowledge management is being recognized in order to be able to build on experiences and to be able to share experiences with other managers that have been involved in the past or will be involved in future cases. Finally, making use of a strong integration team was often mentioned.

## Conclusion

Several studies have investigated the impact of cultural differences on the success of mergers and acquisitions. Some have looked into the integration process itself, or criteria to integrate. This far, however, not many scholars have focused on factors that contribute to learning from previous M&A processes, and how to build on existing knowledge and experience. This study

**Table 6. Overview of Factors Contributing to Learning for Both Panels**

Factors	Panel one	Panel two
Sessions	After M&A deals lessons should be drawn, and being incorporated in management trainings	Training and learning activities are important for success in the long run
Evaluation	Both before the deal is closed, as well as afterwards, process and results should be evaluated	Clear and open feedback should be provided to all team members, based on the objectives
Knowledge	Specific knowledge of M&A processes, as well of the relevant business aspects is required	-
Experience	Broad experience, preferably both as the acquired and acquiring organization contributes	-
Knowledge management	Integrate lessons learned into the M&A process with a core team of experts that also coach others	Within the organization, the M&A department should acquire, formalize, and share relevant M&A knowledge
M&A team	Compose an M&A team with both experienced people as well as more junior people. Further aspects of trust play a role in the team building.	Team members should be able to cooperate as a stable team.



focused on integration management practice, and what factors contribute to learning in mergers and acquisitions. Questions to panel participants were centered around involvement of an integration team, attention for culture, criteria to integrate (related to the first research question), the M&A learning process, and factors that contribute to learning (related to the second research question). The results of the two major research questions are discussed below:

*1. How is the integration management practice being organized?*

Regarding results concerning integration management practice, in about 50-100% of the experiences of panel participants, an integration manager was appointed, depending a.o. on the scale of the merger. The success, however, proved to depend on the recognition and dedication to integration management as such next to other tasks. In most experienced cases, no attention was paid to cultural differences. In these cases where cultural differences were recognized, communication was mentioned to be a crucial factor, and that culture should be dealt with as part of the integration strategy instead of stand-alone. Different motives or criteria are mentioned as being relevant in the decision-making process about the degree of integration of mergers. Most prevalent criteria mentioned are strategy in relation to potential synergies. Other criteria were strongly related, such as business scope, business process, culture and key staff.

*2. What factors play a role in the M&A learning process?*

Regarding results concerning the M&A learning process, opinions diverged about the quantity and quality of preferred merger experiences, varying from one fully

digested merger to eight cases. At the same time, respondents indicate the contingency of mergers and that a wide range of merger experiences would be preferable. Further, most respondents mention the importance of evaluating merger processes, related to M&A previous experiences. Next, the relevance of knowledge management was recognized in order to be able to build on experiences and to be able to share experiences with other managers that have been involved in the past or will be involved in future cases. Finally, making use of an integration team was frequently mentioned by different experts.

Concluding, depending on the strategy and vision behind a merger, management can decide about the desired degree of integration, resulting in the appointment of an integration team. Cultural differences should be dealt with carefully, although as an integral part of the integration strategy. Further, organizations that organize their integration practice on a structural basis seem to be able to learn from previous experiences, although every merger knows its own specific characteristics. As most managers only experience a few mergers during their career, knowledge management is a crucial factor for organizational learning in the long run. The composition of integration teams, with both experienced and less experienced managers, and the follow-up after the merger play an important role in the learning process. Scholars like Marshall et al. (2005) stress the importance of building trust in the process of knowledge sharing.

Future studies could elaborate on how to organize and facilitate the learning process of M&A, and how to build on existing knowledge and experience in order to learn instead of making the same mistakes. Scholars could discern between more general lessons, and context-specific lessons of mergers and other kinds of strategic partnerships.

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