

# Exploring the post-acquisition process of cross-border mergers and acquisitions: A narrative approach

## **Abstract**

Management researchers and practitioners point out that integration processes during the post-merger integration period are critical to synergistic effects and performance of the merged companies over time. However, the relation between the post-merger integration process, synergy potential exploitation and its influence on M&A deal success, especially in the case of international M&A, is not clear. Moreover, the results of empirical studies are inconsistent and even contradictory. This paper adds to the existing body of knowledge by developing a model, based on the analysis of the acquisition by Teva Pharmaceuticals of the Hungarian Biogal and of the Dutch Pharmachemie. The model addresses the key factors such as the effect of national culture, corporate culture differences, and synergy potential between the acquiring and acquired firms on the international M&A performance.

**Keywords: Cross-border M&A, national and corporate culture differences, synergy potential, post-acquisition integration.**

## **Introduction**

Numerous empirical researches have attempted to identify external variables (related to the field and the environment) and internal variables (related to the companies involved in the process) that will help predict the success of mergers and acquisitions (M&A), both domestic and international. However, a large gap still exists between the dominance and number of the M&As in the world and the outcomes of academic research in this field (Shimizu, Hitt, Vaidyanath, and Pisano, 2004).

According to the Accenture and the Economist Intelligence unit global M&A survey of 2006, present-day corporate strategy is focused firmly on M&A as a tool for promoting future growth and creating sustainable value. As a result, companies are aggressively seeking and buying compatible and synergistic businesses to bolster core strengths, and shedding non-core operations. Many companies, however, fail to capture the much-anticipated added value from M&A deals. When asked to draw on their recent experience to pinpoint the critical elements of a successful cross-border M&A transaction, respondents most often cited “orchestrating and executing the integration process” (47% of respondents), and energizing the organization and understanding cultural issues (40%). (Accenture and the Economist Intelligence unit, 2006). This is especially true when examining international M&As.

Most management researchers and practitioners point out that particularly in the case of international M&As, cultural differences and integration efforts during the post-merger integration period are critical to performance (e.g., Graebner, 2004; Graebner and Eisenhart, 2004; Stahl, Mendenhall and Weber, 2005; Schoenberg, 2000; Schweiger and Goulet, 2000; Shimizu et al., 2004). However, the interrelationships among corporate culture, national culture, and integration approaches, as well as their influence on the success of international mergers are not clear (e.g., Stahl et al., 2005). Moreover, the results of empirical studies are often contradictory (Schoenberg, 2006; Teerikangas and Very, 2006). For example, while some findings report a negative relationship between M&A performance and organizational cultural differences (Chatterjee, Lubatkin, Schweiger and Weber, 1992) as well as national cultural differences (Data and Puia, 1995; Slangen, 2006), others found a positive relationship (e.g., Morosini, Shane and Singh, 1998). The conclusions reached by Very, Lubatkin and Calori (1996) that “cross-national mergers are a complex phenomenon, sometimes influenced

by national cultural differences, sometimes by organizational influences, sometimes by both and sometimes by neither” are apparently still valid.

Some authors stress the importance of acculturation to the implementation of M&A (e.g., Nahavandi and Malekzadeh, 1988); others focus on the importance of choice and the differences between integration approaches (Haspeslagh and Jemison, 1991; Ellis, 2004; Ellis, Weber and Raveh, 1993); still others focus on the level of integration (e.g., Child et al., 2000), but none of the studies focuses on the relationship between organizational and national culture differences, cultural characteristics, and integration approaches.

The purpose of the present study is to develop a model that examines cross-border M&A success over time by addressing the post acquisition process of cross-border M&A. The model incorporates key factors that mediate the effect of national culture, corporate culture differences, and synergy potential on the acquiring and acquired firms, regarding the international M&A performance. The model presented in this paper is the result of an in-depth analysis, employing the narrative approach, of two cross-border acquisitions by the Israeli Teva Pharmaceuticals, the first of a Hungarian firm by the name 'Biogal' and the second of the Dutch 'Pharmachemie'. By analyzing the M&A process of both companies over a period of eight years, we were able to develop a model which, in our view, explains the factors influencing cross-border M&A success over time. At the end of the paper we will present a discussion and our conclusions which address the generalizability of our findings.

### **The post acquisition process and resultant success of cross-border M&A**

Few definitions of the concept of integration exist in the literature. Although most authors acknowledge that integration involves some form of combining the assets and people of the buyer and the target, in general, the term is used rather loosely and not as a dependent measure. The limited literature that has emerged on this topic does recognize that there are different ways in which assets and people can be combined (i.e., integrated) in an acquisition, and that different organizational challenges are associated with each type.

Highlighting the importance of M&A process management, several critical works describe various modes by which the operations of two previous firms can be combined into a cohesive, single entity after the deal (Haspeslagh and Jemison, 1991; Nahavandi and Malekzadeh, 1988). Although Nahavandi and Malekzadeh (1988) employ a culturally-based

perspective, the resulting post-acquisition integration approaches of their framework are similar to those described by Haspeslagh and Jemison (1991), who adopt a capabilities-based perspective. Collectively, these works generate guidelines for the effective management of various post-acquisition integration approaches, thereby suggesting that each approach represents a configuration of multiple process-related factors.

Morosini and Singh (1994) and Morosini et al. (1998) identified three post-acquisition execution (integration) modes carried out by the acquirer, based on the degree of sought after post-integration with the target company and on the predominant source of value in the acquisition (i.e., synergies between the acquirer and the target): integration, restructuring, and independence. This characterization of post-acquisition execution modes exhibits some key differences from previous conceptions in the literature about cultural issues and post-acquisition integration approaches. The dynamic definition of post-acquisition execution modes concretely underscores some of the key functional categories underlying an implemented course of action. These broadly include the managerial approach applied to integrate the two companies (i.e., "top-down" or "bottom-up"), the main focus of intervention by the acquirer, the principal decision-makers in the post-acquisition period, the degree of structural change carried out by the acquirer, the working style, and the timeframe for reaping the post-acquisition integration benefits.

Post - acquisition integration and resource reconfiguration may be necessary in order to exploit potential synergies between the acquired and acquiring firms (Ellis, Reus, and Lamont, 2009; Capron and Mitchell, 1998; Larsson and Finkelstein, 1999). Yet, the loss of autonomy that typically accompanies integration process can itself be detrimental to acquisition performance (Chatterjee et al., 1992; Very et al., 1997). Moreover, effective integration of the target firm entails a substantial commitment of managerial resources of the buying company (Haspeslagh and Jemison, 1991; Cording, Christmann, and King, 2008).

Bjorkman, Stahl, and Vaara (2007) proposed that the use of social integration mechanisms and the degree of operational integration of the acquired unit moderate the effects of cultural differences on social integration and potential absorptive capacity, and thus are believed to be conducive to the post-acquisition capability transfer between amalgamating companies.

The dilemma of post – acquisition integration level vs. expected synergy potential exploitation may be especially salient in acquisition of high-tech firms that is often motivated

by the desire to obtain and transfer tacit and socially complex knowledge based resources (Ranft and Lord, 2000; 2002). Since these forms of knowledge are difficult to transfer, a high degree of post - acquisition integration may be required in order to realize the anticipated benefits of these acquisitions (Puranam, Singh; and Zollo, 2003). Yet integration may ultimately lead to the destruction of the acquired firms knowledge - based resources through the employee turnover and disruption of organization routines (Puranam et al., 2003; 2006; Puranam and Srikanth, 2007; Ranft and Lord, 2002; Ranft, 2006; Spedale, van Den Bosch, and Volberda, 2007).

The integration approach is the way the acquirer chooses to behave towards the acquired in the framework of the integration process. Assessment of the previous four variables taken together, namely context plus culture plus management plus organization, should allow the acquirer to formulate an appropriate integration approach.

The approach expresses a sort of composite consisting of organizational conception (structure according to business, shutdown of units, integration in the activity of global units, etc.); treatment of management, top executives and workers; mechanisms for managing the integration (professional counterparts); mapping of sensitive intercultural areas; pace/time, "how" to do "what," etc.

The above discussion shows that extant literature, while discussing the need to develop a composite model, is still ambivalent regarding the question how post acquisition processes result in the success of cross border M&As. In order to further examine the question, we conducted an in-depth, longitudinal analysis of two cross border acquisitions by the Israeli 'Teva Pharmaceuticals'. Using the narrative approach we examined the cross-border M&A process of a Hungarian pharmaceutical company by the name of 'Biogal' and of a Dutch pharmaceutical company by the name 'Pharmachemie' over a period of eight years.

## **The Proposed Model**

In order to examine the post acquisition process of cross-border M&A, we developed a model that includes the salient variables, which are reported in literature to affect M&A success. The proposed model is based on the following variables: (1) national and corporate culture, (2) post acquisition approach, (3) speed, (4) effectiveness of the post-acquisition integration.

### **1. National and corporate culture differences**

Differences and gaps in national and organizational culture between acquirer and acquired, national culture being mainly relevant in global acquisitions; the corporate culture of both acquirer and acquired, and of course intercultural gaps and their consequences to the integration process.

The opinions, attitudes and capabilities of senior managers and key personnel involved in the merger and acquisition processes – CEO, senior management, prominent professionals and key employees in the acquired organization, and their counterparts in the acquirer; the substance, nature and style of decision-making processes – who makes the decisions? How? And to what extent are they implemented?

Organization, structure and working processes; what are the organizational structure and/or philosophy of the acquired organization versus the organizational structure and/or philosophy of the acquirer? This extends to the formal and informal structure, intra-organizational processes and the like, and a comparison of all these to the acquirer.

### **2. Post-acquisition Integration Approach**

This involves the acquirer's choice of strategy for implementing the integration process, and should incorporate conclusions drawn from analysis of the business rationale and context, the management style, the organization, structure and working processes, and the culture, or in short the four previous variables.

The approach may have regard to events of constitutive significance impacting the mutual trust between acquirer and acquired, and to the choice of integration mechanisms (e.g., lateral mechanism: professional communities, peer relations), shared planning and trust-building measures. The integration approach does not concern the order of integration, but is the essence of the process.

### **3. Speed of Post-acquisition Integration Approach**

Integration is a time-based process. Each variable in the process has a different temporal constant. This variable expresses the place of the time and speed dimensions in the implementation of the integration process, in both the planning and execution of the acquisition.

#### **4. Integration Success (Effectiveness)**

What should be considered the success or failure of the integration process? Are measures of successful integration identical to measures of the acquisition's success from a business aspect?

Short- and long-term measures of success: trust; fulfillment of expectations; realization of synergy; leveraging and transmission of skills and knowledge; preservation of knowledge and low attrition rate.

### **Methodology**

#### **The Narrative Approach**

A growing interest among scholars and practitioners is found in the applicability of qualitative research methods to international business research. This interest has been reflected recently in several publications (Marschan-Piekkari and Welch 2004; Welch, Marschan-Piekkari, Penttinen, and Tahvanainen, 2002), which draw on theoretical and methodological contributions within a cross-disciplinary field encompassing the discourse analysis, narratology, organization studies, and others. Moreover, Stahl and Mendenhall (2005) noted that the majority of researchers within the realm of M&A that utilize a fairly conventional post-acquisition integration perspective, and thus heavily rely on quantitative methodological and analytical tools, do not necessarily capture the socio-cultural aspects of such complex and multi-faceted organizational change processes as M&A.

As Soderberg (2006) pointed out, the narrative analysis has potential not only in organization and management studies in general, where it has been widely acknowledged, but also in international business studies, where a narrative approach is almost untried. For instance, in the in-depth examination of a cross-border merger, Soderberg and Holden (2002) reached the conclusion that the narrative approach may be seen as a means by which organizational members create the social reality that frames their sense of who they are, and it also underscores the significance of the managers' and employees' comprehension of the organizational reality that finds its reflection in descriptions of the acquisition-related events. Finally, the narrative approach enables the researchers to grasp the interviewed managers' and employees' different sense-giving and sense-making efforts in the specific context of the M&A deal.

While conducting interviews among organizational actors can never be a method for tapping abundant, objective facts and information about any organizational reality (Czarniawska 1998, 2001), they are useful tools for the thorough examination of the ongoing and shifting construction and reproduction of organizational actors' identifications, national and corporate cultures, a business unit, and so forth. Indeed, as Soderberg and Vaara (2003), Vaara (2000; 2002) and Vaara, Tienari, Piekkari, and Santti (2005) noted there are no ultimate 'truths' in analyzing and theorizing talk and discourse, and the researchers generally put forth their own interpretations of the accounts and meanings produced by the senior executives and other interviewees.

### **The Research Design**

Both acquisitions of Biogal (1995) and Pharmachemie (1998) by Teva Pharmaceuticals were examined repeatedly during the years 1995-2003 by means of in-depth interviews with senior managers conducted by the researchers. In addition, one of the authors was involved in the acquisition processes of the two afore-mentioned companies from beginning to end as VP HR of Teva and recorded the process. The researchers further analysed secondary data that were available publicly such as press articles, annual reports, marketing materials as well as internal reports.

Semi-structured, personal interviews were recorded and later transcribed. In addition, notes were taken during the interviews. Top management was asked about the reasons for the acquisition and subsequent merger, the development of the merger process, their involvement in it and the management of the process. To reduce the risk of informant bias, multiple interviews were held with various members of the management team in each firm. An interview lasted on average about 1.5-2 hours.

The information and data on the human aspect of the integration among the sample companies was collected through in-depth interviews with about 150 top executives, managers and workers in the acquired companies and in Teva, key employees and others who were exposed to and involved in the merger and/or acquisition processes. Information was also drawn from the protocols of the meetings and discussions of Teva's management and Board of Directors.

This type of information – personal testimonies and the remarks of participants at discussions – constitutes the raw material for the human-cultural study, and appears throughout the chapter on the research in *italics*.

Data gathering and analysis were based on the case study methodology (Eisenhardt, 1989; Yin, 1994) and included the following steps:

1. Initial posing of research questions and identifying of important constructs.
2. Selecting the case: the case was chosen for theoretical reasons, based on the replication logic. According to Eisenhardt (1989) the goal of theoretical sampling should be to choose cases that are likely to replicate or extend theory. The selected case was a large international merger and acquisition process that was considered strategic for both companies.
3. Data collection and analysis were carried out simultaneously over a period of approximately eight years. The freedom to make adjustments during the data collection process is a key feature on theory building case research Eisenhardt (1989).
4. A detailed case study was written which subsequently was sent to senior management for comments.

### **The case study: Teva Pharmaceutical Industries**

Teva Pharmaceutical Industries Ltd. headquartered in Israel, is the leading generic pharmaceutical company in the world. Teva is one of the Israel's major exporters and over 80% of its sales are outside Israel, mainly in North America and Europe, with total sales of about US\$ 11 billion in 2008 and about 38,000 employees around the globe. The company develops, manufactures and markets generic and branded pharmaceuticals and APIs (raw materials). Teva has major manufacturing and marketing facilities in Israel, North America and Europe.

The company, formally established in the beginning of the last century, is one of the oldest pharmaceutical companies in Israel and has a long history of growth through mergers and acquisitions. To date Teva has carried out more than 30 mergers and acquisitions, which have won it recognition as one of the world's successful companies in this field. Although growth through acquisitions has become a way of life for Teva, some acquisitions present

more significant milestones than others do. The acquisition of Biogal, a process that spanned a period of about five years, presented such a milestone. Through Biogal's acquisition and subsequent integration into the larger organizational system, Teva learned how to become a truly global company with organizational units spread worldwide. Subsequently, Teva attempted to re-capture the success of Biogal's merger with the M&A of the Dutch Pharmachemie. This experience resulted in another milestone. Although there was a justified business rationale and strategic fit in the case of both acquisitions, the integration processes turned out to be completely different. One of the prominent points emerging from the interviews that were conducted was the assertion that Biogal was Teva's most successful acquisition, whereas the acquisition of Pharmachemie (PCH) was the most problematic ("successful but problematic").

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Teva is known as a company that has an internal growth strategy (through R&D) and an external growth strategy (through mergers and acquisitions), and is appreciated in the industry and in the capital markets as a success story in the field of mergers and acquisitions. This study is an attempt to understand, by examining two specific acquisitions, the secret of Teva's success against the statistical odds, to identify the factors which have underlain Teva's success, and from this to derive a possible working model that can be validated by comparison to similar processes in other companies, or by internal comparison between Teva's various acquisitions. Such a model may indicate what can be done to better execute post-acquisition integration processes among amalgamating companies.

## **Recording and comparing two cross-border M&A**

The context in which the M&A took place has a large impact on the post acquisition process. Therefore, we will first present a short description of both M&A processes.

### **Biogal, Hungary (1995)**

In the early 1990s Hungary was in the throes of shedding the Communist system and starting out on privatization. As early as 1992, Teva received an offer to buy Biogal, a

company involved in the development and production of raw materials and drugs, located in the town of Debrecen in eastern Hungary.

Teva saw the offer as a business opportunity. Preliminary negotiations were launched and an attempt made to assess the capability and potential. Biogal wasn't profitable, and had in fact been incurring financial losses for some time, which were mounting. Acknowledging the financial losses and the need to become more efficient became a cornerstone of the process. Functional teams were set up in the areas of R&D, marketing, pharmaceutical and chemical production, finance and human resources, which mutually tackled the professional examination of the figures and data in Hungary and in Israel. These findings were later consolidated into a plan of action. The work of the company's formal delegation in Israel ended with a plan in principle to restructure Biogal on a divisional basis, parallel in structure to Teva in Israel.

Teva saw a need to reduce Biogal's workforce by about 30%, a requirement translating into the layoff of about 700 workers. The Hungarians were shocked by the idea of layoffs, even more by their extent. The Hungarian delegation returned to Hungary and the negotiations were curtailed, putting an end to the 1992 Biogal story.

One of the explanations cited by Biogal as reason for halting the negotiations involved Teva's Executive Vice-President, who *"in his behavior and presentation of the plan to the Hungarian privatization authority expressed a disdainful attitude towards the Hungarians' ability, conveyed superiority and condescension, and in effect 'pushed' the Hungarian decision-makers into the corner of refusal and/or made it easier for them to decide to reject Teva's threatening offer."*

In the spring of 1995 Biogal turned up again as a prospective Teva acquisition. This time the Hungarian privatization authority had no other competing bidders, for all of them had given up the attempt due to the need for mass layoffs. Biogal's business situation had worsened. Though the company had adopted the organizational structure proposed by Teva in 1992 and slashed its workforce by 10%, these measures hadn't sufficed and the Hungarian government was again looking for a buyer. This marks the start of the second phase of the 1995 acquisition.

Teva redefined the business rationale and strategic fit, on the assumption that an efficiency program would be implemented including a reduction of the workforce by about

30%, Biogal would provide Teva with high pharmaceutical production capability at low cost, raw materials for the Chemical Division (in fermentation technology), R&D capability, access to the emerging Hungarian generic market, and a base of action in the Eastern European markets just opening up to the West.

The acquisition came at a reasonable price due to the need to underwrite mass layoffs, and appeared to have high potential. Furthermore, Biogal was a production-oriented and technology-intensive company, with high-quality professional personnel.

There are those who contend that Teva's initial goals were considerably more modest, or simply different, and that Biogal's post-acquisition accomplishments go far beyond the forecasts. The goals were reformulated en route, e.g., turning Biogal into a source of drug production for Western European markets – England, Holland, etc. In any event, for Biogal the acquisition was a rescue: Teva provided access to markets, created business opportunities, brought in modern Western managerial practices, but nonetheless would also introduce a culture of performance and profit that was new and perhaps also threatening in post-Communist Hungary. In other words, the acquisition context in a nutshell was this: Teva created an opportunity for Biogal, but at the cost of painful efficiency measures.

Teva's Board of Directors recognized risks as well in the process:

*"The company [Biogal] is in a decline which may be significantly accelerated immediately after the acquisition (cancellation of licensing agreements)... Large-scale layoffs... lead to an unfavorable conclusion regarding the acquisition... There is a managerial risk..."*

All the same, the potential for "strategic contribution" proved to be the deciding factor so on 20 Nov. 1995 Teva's Board of Directors gave its final approval and the deal was done.

### **Pharmachemie, Netherlands (1998)**

In 1998 Pharmachemie was the leader in the Dutch generic market, with a sales turnover of about \$200 million representing a 40% share of the market. The company was owned by the Dutch pharmacists union (O.P.G.), which wanted to sell it.

Although a profitable company, Pharmachemie lacked confidence to pursue its future business plans and needed additional financing. It was offered for sale to a number of

companies; among these potential acquirers, Teva and two German companies entered into competition.

Pharmachemie would give Teva an additional presence in Europe (after the acquisition of APS/Berk in the UK in 1996) and leadership in the western European generic market (into which generics were entering). Pharmachemie had a highly invested sterile plant which could in future enable significant expansion of the Teva Group's sterile production capability. On the other hand, Pharmachemie also had a tablets production plant with high fixed costs that was inefficient by Teva's standards, plus another pharmaceutical plant that seemed "expendable" and certain development and marketing activities that Teva would eventually discard.

Teva was likely to provide support in financing business growth and expansion, even though the acquisition posed a certain threat of restricting Pharmachemie's business activities, mainly outside Holland, and/or such as overlapped with what Teva already had or were incompatible with Teva's business philosophy.

The acquisition brought together two companies with parallel business profiles. Pharmachemie's geographical presence gave it the relative advantage of familiarity with the Dutch market, in addition to which it had knowledge and expertise in sterile production; so too Teva's global R&D and production networks appeared well poised to integrate Pharmachemie's R&D and production functions with relative ease.

The acquisition seemed suitable to Teva's Board of Directors. At the concluding discussion several points were made:

*"... Closing the plant in Zaandam and the managerial changes must be done and done quickly... I believe that after a relatively short time [a year] we shall see fruit from our labors... The savings that can be had from the merger with Pharmachemie are many. The major problems are in the area of operation and management (but) they can be overcome."*

On 27 May 1998 Teva's Board of Directors approved the acquisition.

## 1.Culture

### Corporate Culture in Biogal

Biogal's corporate culture, as it emerges from the interviews, contained strong elements of bureaucracy, discipline (subordinates didn't contradict their superiors in discussion), respect for order and hierarchy, and hard work as the norm. It was a managerial culture inclined more toward process and procedure than toward creativity and improvisation. Everything had to be put in writing, even a conversation between two functionaries. Every discussion was formal, as was every exchange and/or negotiation with the workers committees and the like. It was customary in meetings to quote previous conversations from the written page, especially if there were "good" reasons for it.

In English or through simultaneous translation, anger acquires a certain restraint. In Hungarian, though, the same anger may sound vociferous and crude.

There was great importance to the respect shown to an executive or worker, especially by an acquiring company. Any number of descriptions illustrates to what extent respect for others on the part of "acquirers" and/or winning their trust can do wonders for getting a decision approved.

Not everyone had to know everything. It was legitimate and accepted that

*"There are reasons which the manager receiving operational instructions or in charge of implementation doesn't have to know, and neither do his subordinates."*

This was a kind of conditional transparency, depending on the matter at hand. Toward the "owners," namely the acquiring company, there was a sort of duty of obedience, but it needed to be accompanied by mutual respect and courtesy. Polite manners were of importance:

*"The big difference between the Teva culture and the Biogal culture [is that in Teva] there is open debate... When there is a project in the works, everybody involved in it, and not just the executives, sees themselves as part of the new project. There is a collective approach..."*

Biogal's executives were in general invited to visit Israel. For some of them, the agenda and the identities of the people they were going to meet was a "humiliating" experience. The

reason: some of the names of the people they were supposed to meet were relatively low-level,

*"and there you have a cultural indicator who the Israelis compare me to..."*

However, when it became clear to the executives that the chosen names were repositories of knowledge and that the list had been drawn up on the basis of added value rather than hierarchy,

*"This moved me... and then I understood the difference between us."*

This too is a cultural difference: Teva's corporate culture or Israel's national culture (for most of the interviewees there was no distinction between the two) was perceived as "more aggressive and informal," as a culture of behavior geared to a target.

As regards how they perceive themselves, and this stands out among Biogal workers, Hungarians

*"love to work... and when they're assigned a task they look for ways how to solve the problem and not how to dodge it. There will be the executive who's assigned a task with problems... he won't say there are problems, but will pass down the responsibility. The motive is fear of losing his job if he should say 'no' to the task."*

With Teva's arrival a dynamic of change was introduced into Biogal:

*"We have a kind of saying here [in Hungary], that since Teva came into our lives, a state of continuous change is the only constant."*

### **Corporate Culture in Pharmachemie**

Pharmachemie's corporate culture was one of managerial independence and refusal to accept authority. Nothing was pressing, urgent, or maybe even necessary. How things were done and how decisions were implemented was of the essence: canvassing of agreement until consensus, debate (usually prolonged) over alternatives, a multitude of preparations, and promulgation of the even the smallest matter through multiple channels of communication.

Time was a relative factor in the process, dependent on the realization of preliminary conditions.

There was no particular importance to being the acquirer or the acquired, and in many decisions it in fact made no difference "who had acquired whom." Pharmachemie had also its

share of corporate pride, resting in part on the company's leading position in the Dutch generic market.

To Teva's people, Pharmachemie's culture conveyed a "hands-off" attitude:

*"Don't touch... all the more so when you do not (and will not) understand the local culture."*

The managerial team was a closed forum to outsiders, even though from the outside it looked open and inviting.

There was considerable intra-organizational communication, maximum transparency, publications in writing and on notice boards, with recourse to describing the situation in folkloristic and picturesque images from Dutch life.

The principal element in mutual relations was more polite attentiveness to contentions rather than agreement and trust.

In Pharmachemie, Dutch anger was open, cynical and blunt.

From analysis of the interviews a profound intercultural gap emerges between Dutch and Israeli culture. The Israelis note the pride and arrogance on the part of Pharmachemie executives, while the latter contend that the Israelis didn't understand the "how," the Dutch way of doing things. The Dutch did in principle accept the Israeli "what," and the argument was in effect over "how" things should be done in Holland. In the opinion of the Dutch, the Israelis interpreted or translated Dutch opposition to the "how" as opposition to the "what," and thus in effect an intercultural impasse was born, with ensuing consequences.

## **2. Post-acquisition Integration Approach**

The comparison deals with Teva's integration approach in the two cases of Biogal and Pharmachemie, respectively.

### **Teva's Integration Approach towards Biogal**

The approach that Teva took towards Biogal was cautious, determined from a business perspective, and culturally sensitive. This was Teva's second significant acquisition abroad (following the acquisition of Lemmon in the U.S. ten years earlier in 1985), and the caution was no doubt part of the learning process, evident already at the initial meeting with the representatives of Biogal's workers unions on their visit to Israel.

In effect there were several parallel thrusts to Teva's integration approach:

- Integration by means of organizational change, establishment of a project team, a mentoring network, and assignment of professional counterparts;
- Sending a cultural message of respect and trust-building;
- "Partner" network – Israeli top executive beside Hungarian top executive; over time this proved to be a major conduit for handing down "the truth and nothing but the truth," contributing immensely to the assimilation of working and cultural norms.

A critical element of the approach was the decision to bring up the execution of the layoffs prior to initialization of business synergy processes. This was an extraordinary step that ran counter to the customary order of integration. The decision to retain existing management, capital investments in Biogal projects, and the way the layoffs were carried out all became anchors of trust crucial to trust-building in the integration process.

*"The other company [Sandoz, Teva's competitor over the acquisition] had no willingness to help and support us... They wanted to lower the level of production... and they said that, as an international company, they could not afford to deal with layoffs and supporting people."*

The chairman of Biogal's workers council, who had stayed for some time in the U.S. in the past, thought that

*"It's possible to compare the American model to Teva's. There's a similarity in the task-oriented dedication and locking-in on the target, but there is an essential difference in two things: first, that Teva was willing to listen to things Hungarian, and second, to get close to people in a humane way."*

I. Makov, then Teva's Vice-President of Business Development, put it this way:

*"This is Teva's first (significant) acquisition outside Israel in which integration took place... [integration being] the combined transfer of capabilities and patterns of thinking. We didn't come with preconceived notions. We were very creative in the process; we placed power and responsibility in their hands. We made them [the Hungarians] commit, and from the moment they'd committed, they delivered."*

### **Teva's Integration Approach towards Pharmachemie**

Teva came to Holland three years after the acquisition of Biogal, and in effect two years after the relatively smooth conclusion of the Biogal integration process. So, just as caution deserves mention as an element of the learning process with Biogal, in this case there was an element of self-confidence, perhaps overconfidence, which Teva now had as a result of the successful acquisition in Hungary and positive accumulated experience, which regrettably is not always relevant.

The approach that Teva adopted this time was "ambiguous." The process of finding a solution to the shutdown of the "extraneous" plant in Zaandam dragged on, and in time the plant's shutdown proved to be a constitutive event, but from a negative aspect.

The intercultural gap, management's recalcitrance, and the speaking in two voices in regard to lines of responsibility and authority vis-à-vis Teva Europe headquarters, global operations and Teva's headquarters units in Israel all contributed to the lack of clarity.

The same elements of the integration approach (organization, management and culture) which in Hungary had been accepted – the change in organizational structure, cross/dual subordination to Teva's divisions, bridging of cultural gaps, and constructive adaptation of top executives – were received with great reluctance and difficulty by the Dutch.

If there is a connection between the integration approach and the outcomes of the integration process, then in the Dutch case there is a significant connection between the absence of an integration approach and problematic results.

I. Makov:

*"The acquisition of Pharmachemie was a continuation of our strategy to enter Europe. We were extremely afraid of their culture, which was different from ours. We weren't successful in bridging the cultural gap. In those places where it appeared to us that they had said yes and were about to do what had been decided, they didn't do anything. The topic of employment was more important than economics... Immediately after [the start of] integration everything appeared to be going wonderfully and as if we'd put everything together within minutes, but the reality was different... We weren't successful in passing on to them Teva's [measures of] efficiency and culture."*

## **Integration Mechanism**

In any course of integration, and as part of the integration approach, there are various mechanisms to further its implementation, such as, among other things, managerial and/or professional forums, key appointments, shared planning, mentoring, etc.

In Biogal a network of peers was established in the framework of "professional communities," namely each professional/manager on the Hungarian side was assigned a partner/mentor from Teva. In time it became clear that these partnerships were an invaluable channel of communications, serving as fertile ground for intercultural exchanges. To the extent that any intercultural transformation did occur, it was largely there that it happened.

*"B' arrived and he was the referent... Actually he was part of the team but to practical purposes he made the decisions... After a few months a different professional manager arrived, who worked with me and was very professional and cooperative... These were very professional reciprocal relations."*

In time the mentoring network became institutionalized into a routine of managerial and professional forums, and in effect only the CEO's mentor stayed for an extended period, though gradually restricting his presence on-site.

No mentoring appeared to be necessary at Pharmachemie, but contacts between peers in some cases (the more prominent ones) became mutual attempts at persuasion which sometimes even deteriorated into arm-wrestling matches.

In the absence of a production manager at Pharmachemie, a sincere attempt was made to temporarily place an Israeli, then an English production manager. Both attempts proved unsuccessful, again reflecting the intercultural gaps.

## **3. Speed of Post-acquisition Integration Approach**

Despite the importance of the dimension of time in the world of competitive strategy, only a few researches have focused to date on the issue of the speed of the integration in the process of merger/acquisition and its impact on the M&A deal success (Homburg and Bucerius, 2005;2006).

The research of Olie (1994) based on the case studies, provided support to the assertion that slow integration helps reduce the conflicts between the parties involved in the process. In the

same vein, Ranft and Lord (2002) found, also on the basis of a number of case studies, that slow integration helps build trust among the workers of the companies. Finally, in their recent study Homburg and Bucerius (2005) examined the influence of the speed on the success of the integration as a function of the marketing and the sales alone. They found different relations between the speed of the integration and the success of the acquisition, as a dependence in combination with internal relatedness and external relatedness.

Rather strikingly, Angwin (2004) found that the rate of success of M&As declines with the lengthening of the post – acquisition integration period. However, he did not find significant support for the hypothesis that the speed of the integration in the first one hundred days is related to the success of the acquisition deal.

#### **4.Integration Effectiveness**

What should be considered the success or failure of the integration process? Are measures of successful integration identical to measures of the acquisition's success from a business aspect? Short- and long-term measures of success: trust; expectations; realization of synergy; leveraging and transmission of skills and knowledge; preservation of knowledge and low attrition of key personnel.

- When and how is it possible to determine that the integration process has been crowned with success?
- Why do the interviewees tend to ascribe success to the Biogal acquisition and to associate the Pharamachemie acquisition with failure?

We examined the question concerning the relative success or failure of the integration process (apart from the overall merger or acquisition process) through selected citations from the managers who were interviewed, which reveal in effect two different categories of success:

**a. Level of accordance with expectations** from the acquirer's viewpoint vis-à-vis the acquisition rationale in terms of business success (market share, profitability, contribution to growth); transfer/duplication of capabilities from acquirer to acquired; pace/time of synergic union and/or consolidation of reporting networks; integration or assimilation of the acquired by the acquirer; measure of completion of organizational changes; retention or attrition of key personnel or repositories of knowledge; hurdling intercultural barriers; and more.

**b. Occurrence or not of events which "spoil" the integration plan.** A smooth integration process inherently promises a successful acquisition, but when obstacles to its realization crop up (attrition of key personnel, failure to meet timetables, etc.) they are liable to constitute a basis for dissatisfaction with the process.

### **Integration Success at Biogal**

This is what success Hungarian-style sounds like: *"The merger was very successful and the two companies work in identical fashion... Although Teva isn't particularly generous, it takes care to maintain us at an average level..."*

*"For instance, when I ride in a taxi, everyone in town knows that the merger was successful..."*

*"Even people who were laid off in the process and didn't find anything better outside were very hopeful of returning to Biogal..."*

*"We are living well with Teva and don't wish to part ways..."*

*"I can testify that whenever [other Hungarian] chemical and pharmaceutical companies have problems, they always come to ask and consult with me..."*

*"It took until 1998 when we started to make a nice profit and were able to raise pay..."*

This selection of quotes and many others throughout the interviews reflect success in terms of mutual trust, satisfaction, accordance with expectations, a sense of belonging and perhaps even pride. Add to this a wide range of positive statements regarding the high level of professional competency, motivation, adherence to working plans, to the point argumentation, and an accommodation between the corporate cultures, and what we get is a measure of the success of the integration processes of Teva with Biogal.

### **Integration Success at Pharmachemie**

In the Dutch version success has a rather different ring to it:

*"Today I can say that this all happened too fast... swift action in a short time, which of course aroused opposition."*

*"In my opinion there is no real integration here with Teva Europe."*

*"Integrating Teva's management took years... The process hasn't ended because we still are not Teva..."*

*"The Israelis dictate Teva's way which means the Israeli culture, Israeli way, Israeli process, and that's how everything is done... We want to do things our way, and we think our way is the best way."*

*"Resistance to Teva still exists but there is movement in Teva's direction. This year [in 2004] we put the Teva name on the building..."*

### **Comparative Analysis of Biogal and Pharmachemie Acquisitions according to the Current Study's Model:**

#### **Comparing the Corporate Culture - Biogal vs. Pharmachemie:**

As mentioned above, Biogal's corporate culture embodied a need for order; it ascribed importance to process; it demanded respect of hierarchy, discipline, and acceptance of authority. One of its components was self-respect and pride in professionalism and devotion to duty. It also featured loyalty and a feeling of belonging to the company, all the more since Biogal is a major source of employment and the pride of the city of Derbecen.

Pharmachemie's corporate culture placed its emphasis on independence and to a large degree on a refusal to accept outside control or authority. Preservation of the company as an independent entity was a supreme value, and any external token liable to denigrate it was rejected. The culture put up limits to intervention by an acquirer, and there were definite obstacles to the entry of outsiders:

*"If you [a Dutchman] lose your identity you ask yourself if you're still alive..."*

The two corporate cultures, Hungarian and Dutch, received Israeli culture in different ways, although the interviews in both companies expressed a similar view of Teva's and/or Israeli culture: *"They [the Teva people] know what they want,"* or in other words are motivated by a vision and goals, exhibit a determination to get results (in terms of market leadership, operational efficiency, achieving growth objectives in sales and profit, etc.), and are less concerned with the ways and means of the process than with achieving their objectives.

Israeli/Teva's culture was perceived as aggressive, lacking in attentiveness to others, and marked by loud, impolite voices all speaking together in chorus.

The Hungarians and Dutch tended to interpret Teva's openness and informality in different ways, with no uniformity as to their conclusions.

Biogal's people were convinced that Teva had learned to understand and respect the local culture, which in their opinion had required a change and adaptation in Teva's people's approach and behavior towards Biogal's.

Mutual study and learning were of value:

*"We learned to work with the people from Israel, the English, the Dutch, and now with the French and the Italians."*

In Biogal, the result was two cultures living together side by side, despite the introduction of Teva's business and managerial culture into Biogal. According to the interviews, the bridging of the cultural gap and buildup of trust assisted the process of integration and contributed to its success.

Pharmachemie's people saw Teva as *"a hard-nosed company but one that knows what it wants..."* a company in whose culture of debate it was *"possible to ask things in a negative way..."* They were convinced that Teva had failed to understand Pharmachemie's corporate culture and the broader Dutch context, and in any event no trust was established between the executives on either side, although some do contend that over time a learning curve of mutual understanding took shape and there has been significant improvement.

Did Teva err in its understanding of Pharmachemie's corporate culture, or try perhaps to replicate the reciprocity of its experience in Hungary 2-3 years earlier?

A senior Pharmachemie executive contends:

*"If you look at the Hungarians that Teva acquired, those people had to be aroused from 50 years of Communist rule. People were afraid to talk and speak their minds. We [the Dutch] are opinionated and give Teva feedback..."*

One way or another, the understanding of the corporate culture or lack of it, and the sensitivity this requires, as attested to by the interviewees, merely strengthens the assumption that intercultural gaps and bridging them constitute a basic element in the success of the

integration process. And nothing is more conducive to this purpose, as this study shows, than trust and anchors of trust.

### **Comparing the Two Post-acquisition Integration Approaches: Biogal vs.**

#### **Pharmachemie:**

In comparing the integration approaches at Biogal, Hungary and at Pharmachemie, Holland, respectively, one fact immediately stands out: what worked in Hungary did not work in Holland.

In Biogal the integration approach proved itself: there was an understanding of the intercultural gaps, local management was cooperative, and organizational change was accepted. Common working procedures were instituted, and a strong infrastructure laid in place for transferring capabilities. The layoffs were indeed a constitutive event, in almost paradoxical fashion eventually becoming, in spite of their traumatic nature, an anchor of trust. The "partner" network of professional peers worked as an efficient mechanism for passing on information, culture and capabilities. Ultimately, as a result of the integration process, within a year, much earlier than expected, everything was operating smoothly.

In Pharmachemie the integration approach appeared rather ambiguous. There was no agreement regarding steps towards integration, and what was supposed to be a mutual downsizing measure – shutdown of the Zaandam plant – became a constitutive event of negative impact. It was a sign of future problems in the area of mutual trust, lack of cooperation, and other belated consequences.

To Pharmachemie Teva was "transmitting" messages through three different channels: the integration team from Israel, Teva Europe regional management, and the global operations network.

On deeper analysis, it seems that the intercultural gaps – which were there already in the context of acquisition – weren't given proper consideration and/or suffered from a basic misunderstanding on both sides. Both companies' top executives' positions derived from these intercultural gaps.

The time factor – failure to achieve synergic integration within a reasonable period of time – seems absolutely clear in hindsight. The greater the gap in trust, the longer it'll take to achieve results. This is a certain recipe for failure.

The trust that was so helpful in Biogal had its reverse mirror-image in the absence of trust that impeded these processes in Pharmachemie, and made it impossible to bridge the intercultural gaps.

Interestingly enough, with the passage of time the acquisition in Hungary has proved to be of strategic importance, with an impact beyond Hungary's borders, whereas the Dutch acquisition was and remains of merely a local character. It is hard today to estimate to what extent the nature of the acquisition as a factor had an influence on the integration approach at the time each of these acquisitions was launched.

### **Comparing the Speed of Post-Acquisition Integration: Biogal vs. Pharmachemie:**

The complexity of the processes planned for Biogal imparted a feeling that much time was needed to pull off the acquisition. The massive layoffs, intercultural assimilation, the required processes of change – everything combined to spark worries that it would be impossible to do it within the conventional "short" timeframe.

The reality was exactly the opposite. The chosen integration approach, the layoffs as a constitutive event, the level of trust established, and the integration's being managed as a process with a high threshold of sensitivity – all of this led to the outcome that in the space of between one and two years (closer to one) the integration process seemed to have been exhausted and replaced by routine.

In Pharmachemie the picture was completely different. The timetables constructed by Teva, which on the face of it seemed perfectly reasonable and understandable to the top executives of a Western generics company, appeared to have no hold in reality to Pharmachemie's. The Dutch "how" operated in a totally different time dimension than the pace of decision-making at Teva, and certainly didn't meet the expected timetable for implementation of the plan.

The gaps in cultural understanding between the Israeli and the Dutch "how" only aggravated the gaps in expectations; what prior to the acquisition had seemed a large degree of professional and business compatibility between the generic market leaders in Israel and Holland, with expectations of a rapid integration, turned into exactly the opposite reality.

Among the interviewees from both companies, there are those who believe that the integration process still (eight years later) hasn't ended, although the more optimistic contend that today they feel a great improvement in reciprocity.

The time factor which was taken into consideration in the planning of the acquisition did not accord with the breadth and depth of the intercultural gaps between acquirer and acquired. The integration approach (which was lacking) failed to understand that the time factor in the Pharmachemie acquisition wasn't technical but of the essence.

Over time Teva's acquisition culture assimilated the values of tolerance and flexibility in regard to the pace of the integration process. In the Hungarian case this worked, whereas in Holland pace became an essential matter in the encounter between the two cultures.

One more point regarding the relation between the time variable and the variable of culture: the element of temporal flexibility may in fact be part and parcel of Israeli culture, which has a tendency to view time as something flexible and not really binding, in contrast to the sensitivity to time typical of Western cultures. It may be the case that any Israeli company (not just Teva) would find it culturally easier to adapt to a reality requiring flexibility and fluid adjustment of timetables.

### **Comparing the Post-acquisition Integration Success: Biogal vs. Pharmachemie:**

The concepts and language for describing success are closer to the language of the behavioral sciences than to that of finance. But make no mistake: there is a connection here.

According to Bower (2004), *"Poor human integration will often block successful task integration, and task integration cannot be driven faster than success with human integration."*

When Eli Horowitz, then-CEO of Teva, was asked about the integration processes in Hungary and in Holland, he replied as follows:

*"We have the vision, the strategy; we do our due diligence to learn the company and build the tools. Afterwards, however, when you deploy on the ground to succeed in the merger, you have to adapt the tools to the reality and culture of the acquired company... flexibility and adjustment to reality... that is the main torch in whose light we must operate."*

*"The biggest change that I can see in the whole Biogal story is the pride of the workers... When we arrived it was a losing venture, and after two-three years it was Teva... The way the layoffs were handled won sanction for our entry into Hungary... In Biogal we had significant success."*

*"In Holland I didn't properly appreciate how stubborn they were... We were wrong to behave as we did. We didn't have the element of flexibility to examine whether the Dutch might be right... It's true that the argument was over the 'how' and we interpreted their 'how' as resistance. The acquisition was successful, the merger not. We constantly went against the most difficult line of resistance... in the operational area... and in imparting a cultural change... When you use force against a Dutchman, he meets you with force... Instead of coming as mentors, we came as commanders... You need the time and the patience."*

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Place Table 1 about here  
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## **Summary**

Our point of departure for comparing the integration processes in two companies – Biogal, Hungary and Pharmachemie, Holland – was a yardstick consisting of key topics which emerged from the interviews with workers, managers and top executives of the six companies in the sample. We have used these topics or variables (context of acquisition; culture; management; organization; integration approach; time & speed of integration; integration success; cumulative learning and experience) for the purpose of analyzing the integration processes in these two different cases.

Employing this yardstick drew an interesting distinction between the companies, one that strengthens the feeling that it may be possible with these components to construct a working model of the integration process in acquired companies.

From a content perspective, it seems that an integration approach which takes into account the intercultural gap element, required adaptations in organizational structure, and the appropriate retention of managers and professionals in both acquirer and acquired creates better chances for a successful integration.

A constitutive event with positive impact, trust-building, and the ability to operate the appropriate lateral mechanisms such as professional peers – it is these type of things that put the chosen integration approach to the test of reality.

The time dimension becomes a derivative of the integration approach, and the test and measure of success is the ability to work together in true cooperation, not necessarily, at least at this stage, the value of the company's shares.

The above components/variables can indeed be organized into a process chart model. It seems to me, however, that the real challenge is to compare the process chart model to the way 2-3 other companies operate and to construct and prove the causal relations among the model's components.

Successfully proving the causal relations among the variables may indicate to what extent proper handling of intercultural gaps can ensure greater success in integration processes.

## **Discussion**

A recent meta-analysis of the existing body of research (Stahl and Voigt, 2004; 2008) suggested that cultural differences account for only a small proportion of the variance in post-acquisition integration outcomes. These findings suggest that the relationship between cultural differences and post-acquisition performance is complex, and that unidentified moderator variables may be obscuring the effect of cultural differences on acquisition performance. Although M&A scholars have noted the positive aspects of national cultural differences in acquisitions (e.g., Very et al., 1996; Larsson and Risberg, 1998; Morosini et al., 1998), they have paid relatively little attention to the mechanisms by which these differences may affect the post-acquisition performance.

Our intention has been to develop a model that incorporates the key factors that mediate the effect of national culture, corporate culture differences, and synergy potential between the acquiring and acquired firms on the M&A performance. We have used two elements – the applied post-acquisition integration approach and its speed –not only to avoid the treating the post-acquisition integration process as a "black box" but also to provide new insight into it. Our model does not presume to encompass all variables and processes that affect M&A performance, but we believe that it is sufficiently comprehensive to elucidate a significant amount of variance in the results of post-acquisition integration effectiveness and overall M&A performance.

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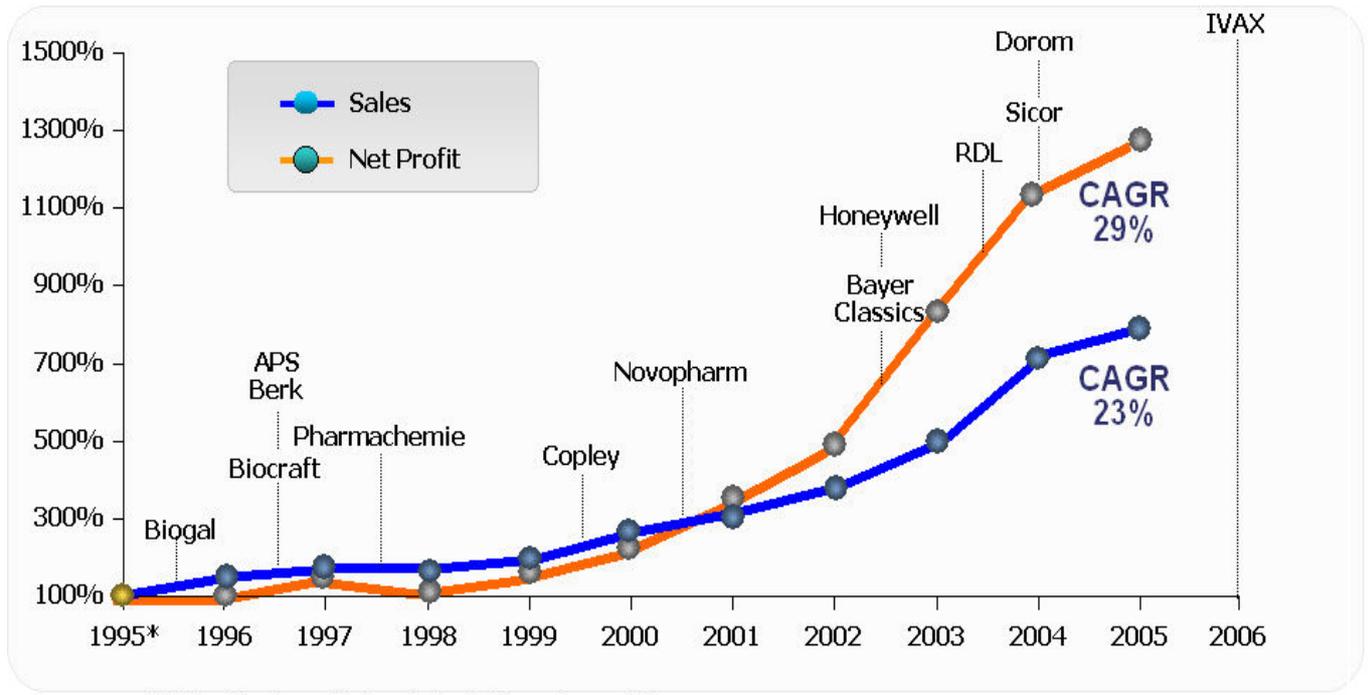
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**Figure 1 - Teva – Acquisitions & Growth 1995-2005**



\*Before Pooling of interest due to Biocraft acquisition

**Table 1 – Comparative Analysis of Biogal and Pharmachemie Acquisitions**  
**according to Model Variables**

<b>Variable</b>	<b><u>Biogal, Hungary</u></b> <b>Most successful integration</b>	<b><u>Pharmachemie, Holland</u></b> <b>Least successful integration</b>
<b>1. Culture</b>	<ul style="list-style-type: none"> <li>• Hierarchy</li> <li>• Formality</li> <li>• Discipline</li> </ul>	<ul style="list-style-type: none"> <li>• Resistance to authority</li> <li>• "How" as important as "what" – the way is of the essence</li> </ul>
<b>2. Integration approach</b>	<ul style="list-style-type: none"> <li>• Layoffs prior to integration – a constitutive event that built trust</li> <li>• Mechanism of initiation by peers</li> <li>• Transparency and fairness helped to bridge cultural gaps</li> </ul>	<ul style="list-style-type: none"> <li>• Vague approach and difficulty in implementing integration processes</li> <li>• Problematic events: shutdown of the Zaandam plant; transfer of sterile production from Abic; transfer of production lines to Biogal</li> </ul>
<b>3. Speed of integration</b>	<ul style="list-style-type: none"> <li>• <b>In planning:</b> estimated long process</li> <li>• <b>In execution:</b> faster than expected</li> </ul>	<ul style="list-style-type: none"> <li>• <b>In planning:</b> expected to be fast</li> <li>• <b>In execution:</b> "incomplete," "never-ending" integration</li> </ul>
<b>4. Success of post-acquisition integration</b>	<ul style="list-style-type: none"> <li>• Success in business terms</li> <li>• Success in terms of mutual trust and satisfaction; fulfilled expectations, feeling of belonging and corporate pride</li> </ul>	<ul style="list-style-type: none"> <li>• Belated success in business terms</li> <li>• Partial success in terms of satisfaction; slow and gradual progress from resistance to cooperation</li> </ul>