

An Interaction Manager: Maintaining Positive Interactions in a M&A Process

Masae Takimoto masae@keiho-u.ac.jp Japan Osaka University of Economics and Law

Yoritoshi Hara hara@kisc.meiji.ac.jp Japan Meiji University

Masaaki Takemura takemura@meiji.ac.jp Japan Meiji University

WIP paper

Abstract

The purpose of this paper is to show how a manager played an important role in the process of M&A. Through our five-year field research on an M&A case in Japan, we found that managers play a crucial role in facilitating successful interactions between the acquiring and acquired firms.

Through our case study, we found that a relatively small acquired company could influence the corporate culture of the larger company merging with or acquiring it. KOBAYASHI Pharmaceutical Co. Ltd. (henceforth, KOBAYASHI) acquired KIRIBAI Chemical Co. Ltd. (henceforth, KIRIBAI) in 2001, which became a wholly-owned subsidiary of KOBAYASHI. The first intention of this acquisition was to gain a novel corporate culture that KOBAYASHI did not have; the unique competence in marketing and product development of KIRIBAI. This transfer of corporate culture, however, did not work automatically or as intended. An interaction manager, as called in this paper, played an important role in the transfer.

We expect that our findings will contribute to the academics in two main ways. The first way is in regards to M&A management. Orthodox understandings of M&A's purposes are that they are basically for efficiency; production and distribution costs, financial motivations, market power, and so on. According to these understandings, the acquired company vanishes. Our case showed the acquired, small-sized company still influenced the acquiring company. The second way is related to traditional IMP research. Though M&A is undoubtedly interaction management, there are rarely any studies on M&A by researchers in the IMP group, except a small amount of excellent studies. We will show some important roles that an interaction manager took on in the M&A interaction process.

Keywords: an interaction manager, post-merger integration, interaction process, Japanese company.

PURPOSE OF THIS PAPER

The purpose of this paper is to show how a manager played an important role in the process of M&A. Through this research, we attempt to introduce new research topics of interaction management to IMP tradition. Our research, in contrast to IMP tradition, focused on personal level activities. Not only introducing new unit of analysis, personal level, but also we are attempting to use activity-based research method. (Jarzabkowski 2010, p.130)

There were two reasons why we focused the study on the M&A process as an IMP related piece of research. Firstly, the study of M&A can be applied by an interaction study. This study is suited to IMP research tradition because, for successful M&A, the post-merger phase is the key factor for success. That is undoubtedly interaction management because M&A settlement processes sometimes skewed by asymmetric power balances. In that case, maintaining positive interaction process must be held, even, by artificial treatments.

Though we tried to find an M&A study from previous research, few studies existed; only two in Industrial Marketing Management (Anderson, Havila & Salmi 2001; Öberg, Henneberg & Mouzas 2007). The study of the process of M&A is expected to contain some additional knowledge on interaction.

Secondly, this study will focus on several roles of an individual. Though the IMP interaction model looked at individuals in its scheme(ed. Hakansson 1982, p.24 Figure 2.2), previous IMP research did not dominantly pay attention to an individual role in the interaction process.

Through our five-year field research on an M&A case in Japan, we recognized that a manager plays a crucial role in facilitating successful interactions between an acquired and an acquiring firm. We will construct this paper to complete our purpose as follows. In the next section, we will briefly review some previous literature. We found that M&A studies mainly focus on the pre-acquisition evaluation process. Though some studies indicated the importance of post-merger integration (Robers 1994; Shirivastava 1986; Vaara 2002), their empirical research did not pay attention to organizational problems, much less interaction issues. So there may be an opportunity to gain additional knowledge and understanding of the M&A process from the interaction point of view. Before examining our empirical evidence, we address our research method. In this section, we assert why the case study is suited to our paper. In the next section after the research method, we show our case study on the post-merger process in a Japanese company. We will indicate the roles of an interaction manager in this process in the research finding section. In the last section, we will summarize our findings and indicate some possibilities for future research on the personal aspects in the interaction process.

LITERTURE ADDRESSED

In this section, we will briefly review the previous dominant literature on M&A management. Mainly we summarize that there are two subjects. The first one is related with a perspective on M&A management. We believe there are two views on M&A, the rational view and the process view. We believe that interaction management is suited to the process view. And from this view the research method is, in a sense, logically derived. Second, we noticed there are few process studies in M&A management, especially about post-merger organizational problem research. As the process management problem happens when an acquiring company tries to utilize resources of an acquired company.

Two Views on M&A Management

M&A processes generally are difficult because of different cultures between acquiring and acquired firms (Teerikangas & Very 2006). M&A failures often happen when different cultures between acquiring and acquired firms try to be combined. Different values and practices between them can spoil collaboration and mutual learning between their employees (Cartwright & Cooper 1996; Nahavandi & Malekzadeh 1988; Schweiger & Very 2003). However, some empirical studies have reported the positive or mixed influence of cultural differences on post-integration performance (Morosini 1998; Weber, Shenkar & Raveh 1996). It can be assumed that a different culture is not necessarily a negative factor in an M&A process. This paper provides an M&A case where different cultures between the acquiring and acquired firm brought about a rather positive interaction between them, which enabled them to improve their capabilities of carrying out product development. A manager in the acquiring firm played crucial roles in the M&A process in order to facilitate the successful interaction. The manager with such roles is referred to as the interaction manager in this paper.

According to previous studies, there are two main understandings for a successful M&A: a rational or planned view and a struggled or process view. In Ernst & Young's (1994) book, whose view is regarded as a typical rational view, Bernhardt (1994) formulated that eight phases must be included for successful M&As. A comprehensive acquisition program should:

- Establish responsibility at the policy level;
- Develop an acquisition plan;
- Define acquisition criteria;
- Identify potential acquisition candidates;
- Make effective contact with candidates;
- Perform thorough due diligence;
- Negotiate terms that preserve the benefits identified; and
- Reap the benefits through effective post-acquisition integration.

Bernhardt's view is a very typical rational or planned view. Even in Japan, this rational M&A process sometimes worked. Ishizumi (1988), however, reported four unsuccessful

acquisition attempts, all of these cases in Japan. These failures often occurred due to unanticipated or even irrational Japanese ways; such as careless use of the word “acquisition” in the negotiation or inadequate respect to the company. From these cases, he indicated that deliberated negotiation processes were needed in Japanese M&A (Ishizumi 1988, pp.56-60).

With regard to a process view that we are interested in however, Haspeslagh & Jemison (1991) noticed that M&A did not work automatically in a well-planned way, when a company acquired another company. They emphasized an effort to capture the resources from an acquired company.

Post-merger Problem Issues

Even though several researchers noticed the importance of process research, their research tended to focus on activities in the planned phases as Bernhardt (1994) illustrated. From Japanese M&A cases, Ishizumi (1988) noticed the importance of post-merger management (in his writings termed post-acquisition). Japanese companies often emphasize implementation (Johansson & Nonaka 1997). Post-merger management is nothing but implementation.

Few previous pieces of research have been done on this theme, just Homburg & Bucerius (2005). They paid attention to the key factors for success being post-merger activities, especially integration of marketing functions. They defined marketing integration as having two elements, the extent of integration and the speed of integration. The former is defined as the level of similarity achieved between two firm’s marketing systems, structures, activities, and processes. The latter is defined as the length of time needed to achieve the intended level of marketing integration. Their model is very simple but thorough. Marketing integration is an independent variable that affects integration outcomes, and then they affect performance. Of course, Homburg & Bucerius (2005) introduced moderator variables, but their model was basically a causal relation model, or liner model, not the process model.

Actually, there are very few previous research pieces on the “implementation” process model. That is the reason why we have proposed a new way to understand the M&A process management. When researchers focus on process research, it is better to choose a qualitative methodology, especially a case study. So we will discuss research methodology in the next section. The interaction manager in the firm in our case struggled with introducing the corporate culture of the acquired firm into the acquiring firm. As a result, the acquiring firm could gain its capability of carrying out product development. We reveal the functions of the interaction manager in the process through a case study.

RESEARCH METHOD AND DESIGN

In this paper, we employ a case study as our research method. It has been an orthodox and traditional method in IMP’s dominant studies (Piekkari, Plakoyiannaki, & Welch 2010, Yin

1984; 2003). In this study, we choosed the unit of analysis on people. But before this study, there were two more phases. In the first phase, since 2007 one of our colleagues began to describe first M&A process in KOBAYASHI. The result has been summarised a case study (Takimoto 2008). In the second phase, we organized studies on whole M&A cases in KOBAYASHI. And in this case, we changed the unit of analysis for detailed case studies. Our case sources mainly consist of semi-structured interviews, archival data, including industrial reports and internal documents.

So, this paper is based on our five-year field research, observing the interaction management between two Japanese companies. During this period both companies were studied extensively. We had large amounts of information about them since the early stages of this M&A. Though this information mainly consisted of quantitative information, it was also supplemented by qualitative data extracted from interviews. In order to build a managerial theory from this information, a case study is appropriate for the methodology. (Carlile & Christensen 2004; Christensen & Carlile 2009).

THE CASE

The purpose of this M&A was to expand and supplement KOBAYASHI's business. As for the expansion, it was viewed that the function of a disposable heating pad was very promising. Heating pads generate a gentle heat at the area they are patched to and they thought they would find various different uses for them. For example, using them might ease stiffness and muscle aches. They took notice of not only the physical function of warming but also the effects on easing pain or stiffness by warming. These functions match well with the needs of KOBAYASHI's health care product development.

The principle of the heating mechanism in heat pads is the oxidation process. Some hand warmers contain cellulose, iron, water, activated carbon (to speed up the reaction), vermiculite (water reservoir) and salt (catalyst) and produce heat from the exothermic oxidation of iron when exposed to air. This type of heat pad normally maintains temperatures of around 40 centigrade and lasts 10 hours.

KOBAYASHI had no knowledge of the manufacturing techniques for heating pads, nor did it have any dealings with wholesale companies that carried heating pads. KOBAYASHI products were dealt with by a wholesale company that handled wholesale medical and pharmaceutical products. On the other hand, heating pads were dealt with by wholesalers of general merchandise. By merging these, KOBAYASHI could gain technology relating to the product development, production and channel of distribution. The purpose of the early stage of this merging included gaining market overseas (Takimoto 2008).

That's not all. For KOBAYASHI, the corporate culture of KIRIBAI was very unique. The corporate culture of KIRIBAI was excellent at developing fancy goods and making funny TV commercials. As for the corporate culture of KOBAYASHI, this irrational kind of marketing

(such as funny TV commercials or developing fancy goods) was not recommended. KOBAYASHI's corporate culture was to define consumer's problems first, and then offer products as means of solving these problems.

A problem with interaction in this case occurred when integrating these two different cultures. In M&A cases, when there is asymmetric power between the acquiring and acquired (in his word, merging and merged) companies, it is difficult to maintain both cultures (Senn 1994). That's because there is a strong possibility that the culture of the acquired company vanishes. Yet in this M&A case, the primary purpose was to introduce the acquired company's culture.

One good idea to maintain the acquired company's culture is to keep in the acquiring company as one division in the company. Actually, in this M&A case, KOBAYASHI maintained all functions of KIRIBAI as a company. The president of KIRIBAI resigned and sold all of his company stock, yet all other executives, employees, office buildings and factories remained as they were. However this made it impossible to introduce KIRIBAI's corporate culture into KOBAYASHI or improve efficiency, which is the most prominent effect of M&A. KOBAYASHI used three different plans to stimulate interaction.

Institutional Treatment

First, KOBAYASHI set up the "KIRIBAI Conference", which is a general liaison conference held once a month. Participants from KOBAYASHI are the president, members of management planning and product development, but the members of product development were supposed to join the meeting only after the first five years. After that KOBAYASHI would send two members of product development. These members take back know-how of product development learned from KIRIBAI. Participants from KIRIBAI were the president, the executives of product development and its members.

In these meetings, ideas of product development in KIRIBAI and KOBAYASHI were exchanged. Mainly it introduced products of KIRIBAI under development and then it was discussed and examined over and over if it was possible to introduce them into the existing products of KOBAYASHI or what would happen if they were combined with them.

These meetings are still held as of 2012, eleven years after the M&A. "There is no meeting which lasts so long like this", said a director.

Symbolic Treatment

The important point of maintaining an acquired company's culture is the president of the acquiring company, in this case KOBAYASHI, should attend the meeting. This idea may sound too Japanese, but the president attending gives the meeting an important feeling. The president becomes a symbol of importance.

Actually the management of KOBAYASHI's product development is a matter for the president, so all plans of product development need to be settled by him. So it might be considered that the attendance of the president of KOBAYASHI is merely following

convention. However we may also say that there is no effective way but the president attending, as it gives an impression that the acquiring company respects the activities of the acquired company.

Personal Treatment

The last plan was that the management of this KIRIBAI conference was to be operated by the management planning department. The management planning department is a department which decides long-term strategy or growing strategy. This department is in charge of the M&A strategies. This department has supported this kind of interaction for over ten years.

In 2001, it was considered that the management planning department had a temporary function, not a permanent. However it ensured the M&A of KIRIBAI was a success, and the management planning department changed its name to the growing strategy department. That's because M&A are the most effective method of a company's growing strategy. Furthermore, in 2006, the managing planning department was settled as a permanent department, and assigned a managing director.

Why they could maintain interaction was that, this department has consistently managed a KIRIBAI council. In this department, KIRIBAI is considered as a driver which urges innovation in KOBAYASHI and understands that to maintain different cultures to some extent is the only way. The top management of this department was the same person from 2001 to as of today. We might conclude that why KOBAYASHI could maintain a different culture for more than ten years is due to the interaction manager, who maintains this kind of atmosphere. This situation is illustrated below in figure 1.

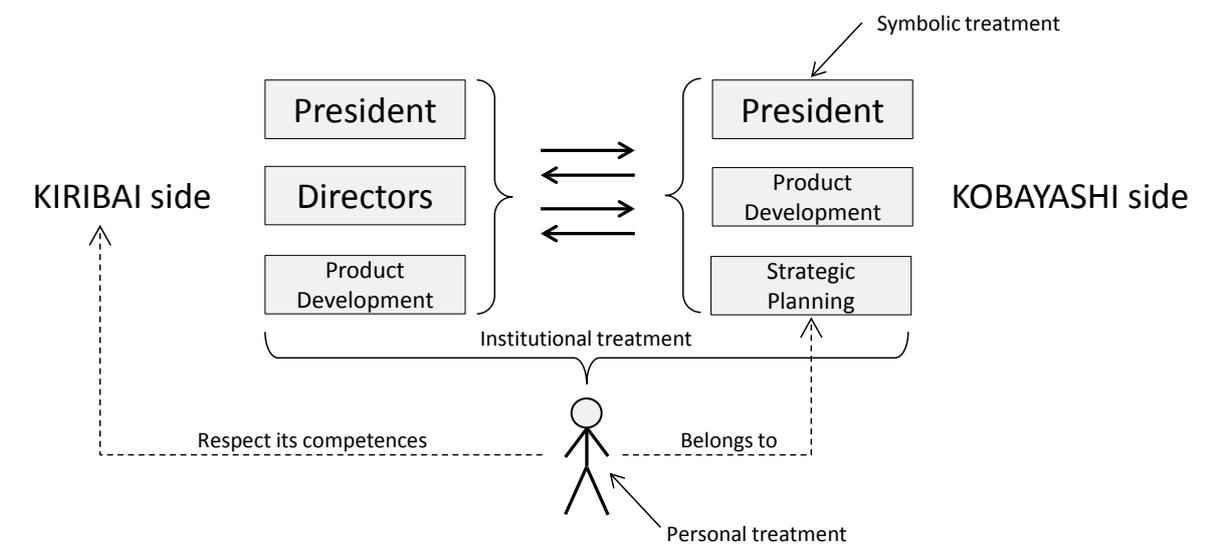


Figure 1 KIRIBAI Conference and an interaction manager

RESEARCH FINDINGS

Through our case study, we found that a relatively small acquired company could influence the corporate culture of the larger company acquiring it. KOBAYASHI acquired KIRIBAI in 2001, which became a wholly-owned subsidiary of KOBAYASHI. In regards to the marketing and sales aspects of KOBAYASHI's acquiring KIRIBAI it was to gain a foothold to develop the world market.

However, that was not all. Interestingly, we revealed that KIRIBAI, the small acquired company, had changed the corporate culture and the styles of product development of KOBAYASHI, the larger company. There existed interactions between KIRIBAI and KOBAYASHI, which influenced KOBAYASHI's culture. Such an effect was not expected in advance by KOBAYASHI. Even though, this good influence did not occur by itself, rather by maintaining good interaction between both companies.

In the series of interactions, a manager in KOBAYASHI, what we call an interaction manager, played an important role. There are two main research findings from our case research. The first one is the fact that there exists an interaction process where an acquired firm's culture influences the culture of the firm merging or acquiring it, as well as that a different culture does not necessarily mean a negative factor in a M&A process. Second, we also found the importance of the interaction manager's roles that produced positive interactions between the acquiring firm and the acquired firm to combine their different cultures. It was also found that the interactions enabled the firms to gain their capabilities for product development.

MAIN CONTRIBUTIONS AND FUTURE RESEARCH

Conventionally, interaction and/or relationship researchers assume that interaction is something organizations already have. Organizations have interaction strategies, interaction processes, and interaction managements. In this view, interaction is a property of organizations. We take a different perspective: interaction is something that people do. Interaction is an activity.

Quite probably those who research interactions and interaction processes will readily agree that 'doing' in relation to interaction is important, but often they seem not to recognize the full significance of this as a research issue. Either they tend to assume what people do, attributing behavior on the basis of observed outputs and deducing from these the actual activity; or they raise 'doing' to a level of abstract categorization, such as planning or change. We are concerned with what people do, literally and directly. As such, our study is essentially concerned with interaction as activity in organizations, typically the interaction of people, rather than interaction as the property of organizations.

We expect that our findings can contribute to the two themes of the IMP tradition. First, our research is based upon the IMP research tradition of empirically based studies, and is related to a business network change by an M&A. There are rarely any studies on M&As by

researchers in the IMP group except some excellent studies (e.g., Anderson, Havila & Salmi 2001; Öberg, Henneberg, & Mouzas 2007). However, nobody seems to deny that M&As have a strong impact on the business networks that the IMP researchers are interested in. Our research contributes to that IMP research tradition.

Second, our research opens a new direction toward a personal interaction theme in IMP. The general analytical unit of IMP's interaction model is formally based on companies, or businesses, not individuals in business networks. Of course, the IMP model sometimes referred to individual interactions (Gadde & Hakansson 1994). In fact, any interactions are executed by individuals. Avoiding excessive generalization by methodological individualism (reductionism), individual roles might be highlighted in the IMP model.

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