Anatomy of a Post-merger Integration:

The Case of Slovenia

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Abstract

Post-merger integration is the critical phase of every strategic merger and actually determines the final outcome of the whole merger. Researchers in the west have found out that as much as one half to two-thirds of mergers are economically unsuccessful. Main contributing factors are attributed to late and inadequate execution of the post-merger integration. My research shows that the same pattern seems to also occur in Slovenia. Namely, even the managers of bidder companies themselves have recognized that the largest share of mistakes in the whole merger process had been done in the post-merger phase. In some cases there has been virtually no post-merger integration at all and in others different degrees of improvisation were the main characteristic of mostly defective post-merger integration.

Anatomy of a Post-merger Integration: The Case of Slovenia

1. Introduction

Mergers are the subjects of many in-depth studies, which rarely offer non-ambiguous conclusions. The majority of researchers in this area although agrees that macroeconomic effects of mergers are generally positive, that the most indisputable winners of this game are the shareholders of target companies (Weston, 1990). Furthermore the majority of mergers – one half to two thirds (Pautler, 2003; Bellinger and Hillman, 2000; Cartwright and Cooper, 1996) do not manage to show the pre-merger announced positive effects. All the more it is estimated that half of all mergers result in deteriorated financial indicators compared to the period before the merger or in comparison with direct competitors.[1]

The reason for such a large share of economically unsound mergers, according to a number of researchers (Bellinger and Hillman, 2000; Haspeslagh, Jemison, 1991; Mirvis and Marks, 1992), is predominantly because of the inadequate execution of post-merger integration. Surely, if the primary decision to take over another company is based on wrong data and false strategy or no data or strategy at all, there is generally no post-merger integration to solve the problem. Nevertheless, the selection of targets and technical execution of mergers does not give as much of a headache to bidders as the execution of the post-merger integration itself.

Contrary to other types of restructuring, the mergers differ at least in three characteristics: speed, extent of change and the critical size of the unknown (Covin et al. 1997). Underestimating or misunderstanding of these facts is projected in the deficient planning of post-merger integration, which ought to start right after the decision to take over another company (Mirvis and Marks, 1992) and in the inefficient supervision of the post-merger integration process itself. Bellinger and Hillman (2000) point out that mergers are only successful if they enable companies to better take advantage of opportunities in the environment or effectively negate threats, if they are rare and inimitable, if the selection of target companies is appropriate and finally if the bidder is capable of taking advantage of the new combination.

In 1991 Slovenia gained its independence and started the transition towards a market economy. This included the privatization of the socially owned companies and the development of the capital markets, which both generated the necessary conditions for mergers to take place. The greater relevance of mergers in Slovenia has been mostly

[1] The researchers enumerate quite different results in addition to the rate of success of mergers, which reach from 20 to 60% (British Institute of Management, 1986; Weber, 1996).

influenced by the model of privatization, which resulted in economically suboptimal ownership structures in a great number of privatized companies. This actually influences the intensity, characteristics and final economic effects of mergers in the country. In comparison with the USA and also Western-European countries there is a great relative lag in terms of practical experience regarding mergers. This is true, both for the companies themselves as well as for all other participants on the capital market: banks, stock exchange, supervisory institutions, institutional and small shareholders.

While I had been dealing with the motives, the logics of mergers and takeover prediction models for individual companies some years ago (Bešter, 2001), in this article I will focus on the post-merger phase, trying to identify and point out the main characteristics which are similar or different in comparison to more developed capital markets.

2. Methodology and sample

The target population of the research is represented by all Slovenian companies which have carried out mergers of particular companies in Slovenia and elsewhere in the world, during the period of four years, from January 1st, 1998 to January 1st, 2002. For the identification of these mergers I have mainly used the database GVIN (www.gvin.com), which comprises all articles published in Gospodarski vestnik, Finance, Manager, Dnevnik, Večer, Podjetje in delo, Pravna praksa, Pomurski vestnik and Kmečki glas or which were mediated by STA (Slovene Press Agency).[2]

For the search on the mentioned database I have used the keywords, and different cases of the following expressions: merger, takeover, acquisition, consolidation, supervisory board, hostile, control share, largest owner.

This way I have developed a list of 122 mergers that were executed in the mentioned time frame (MBO-s were excluded since in these cases post-merger integration is usually not relevant). I prepared the questionnaire and tested it on a small sample of seven companies. Some minor changes were made to the questionnaire and then it was sent to all the companies from the mentioned list of mergers. This was done two years after the last of the mergers included on the list was completed. In the period of two months I received 33 satisfactorily filled out questionnaires, which represented a 27.05% sample.[3]

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[2] The list has been compared and supplemented with the information from the annual report of the Slovene Securities Market Agency.

[3] I agree, that the mentioned list of 122 mergers is not entirely complete, because it is possible that there was no report of some merger on the GVIN database. Although taking into account the nature of the enumerated

Out of 33 transactions 24 were executed as acquisitions of stock, four as legal consolidations and another four as acquisitions of assets. One company refused to answer. Before the transaction took place, foreigners owned six of the target companies and five of them were located outside Slovenia.

In thirteen cases the bidder decided to approach the largest owners first, trying to negotiate a deal with them, in four cases negotiations took place with the management of the target companies and only in seven cases the bidder made a direct offer to the shareholders (the other answers were a combination of the enumerated answers).

Seven of the questioned bidders pointed out that they had been competing with other bidders for the same target, ten of the others were not sure of this. It is of great interest that the largest takeover premiums (60 and 100%) had been paid exactly in two of those ten mergers where the bidders were not certain of having a competitor or not. With a larger sample it could have been demonstrated that the influence of uncertainty on the size of premium is of even larger importance than the influence of competing with other bidders.

In eleven cases target companies were direct competitors of the bidders, and in further twelve cases target companies were in related businesses, but were not direct competitors to their bidders. Such mergers are expected to have a greater rate of success, as the bidders stay more or less in the same line of business and they also know their targets better including their strengths and weaknesses (Healy et. al., 1997). With the number of potential synergies larger than in other mergers of non-related companies, the probability that the announced synergies will be actually realized in such cases is much higher (Weston, 1990). However, this mere fact itself does not occur to be enough for the final success (Cartwright and Cooper, 1993).

In three cases the target companies were the suppliers and in another three the buyers of the bidder's goods – vertical mergers. Four remaining cases can be characterized as diversification mergers, which are attributed with lower rates of success in most research (Bibler, 1989).

Target companies' managers have, in seven cases, carried out defensive measures against the bidder. These seven cases can be unambiguously identified as hostile mergers. In most of the cases they tried to convince their shareholders to keep the shares by promising them higher returns in the future. They also addressed the public claiming economic irrationality of the merger, they started negotiations with 'white knights' to buy their shares, they

sources (especially Finance, Gospodarski vestnik, Manager) as well as their extent, it is safe to believe that the list contains a vast majority of all mergers executed by Slovenian companies in the mentioned period.

obstructed bidders in their effort to value their companies, they tried to instigate workers against the bidder and they opposed bidders requests to reveal the lists of actual owners (more information is available in the following table).

Table 1: Takeover defense measures used in Slovenian sample of mergers

DEFENSIVE MEASURES:	Frequencies			
	yes	*no*	*no response*	Σ
no defensive measures	26	7	0	33
persuading shareholders to keep their shares	4	29	0	33
persuading the wider public of the economical irrationality of the merger	4	29	0	33
attracting other investors to buy shares of their company	4	29	0	33
concealing information required to value company	4	28	1	33
instigating workers against merger – danger of losing employment	3	30	0	33
concealing information about actual owners of the company	3	29	1	33
buying its own shares	1	32	0	33
negotiating with other potential bidders (white knights)	1	32	0	33
proceedings and other law actions to render merger more difficult	1	32	0	33
notifications to the Competition Protection Office	1	32	0	33
proxy rights	1	32	0	33
management delaying response to a takeover offer	1	32	0	33
'golden parachutes'	0	32	1	33
anti-takeover amendments	0	33	0	33
'pac man' strategy	0	33	0	33
Other	0	33	0	33

Notice: more than one answer was possible.
Source: questionnaire (all tables and figure in this paper).

Bidders faced a far larger resistance than with the target companies, from the local environment of these companies. Thus they enumerated, in eleven cases, the problem with the so-called 'local patriotic' influences, in other words with the local politics. Furthermore – in seven cases – also with politics in general. It has been pointed out four times that the public media response to the bidder's actions was negative, and that courts hardly knew how to deal with problems of mergers. The answers of the respondents may be more precisely read in the following table.

Table 2: Indirect obstacles faced by the bidders

OBSTACLES	Frequencies			
	yes	*no*	*no response*	Σ
local politics – 'local patriotism'	11	15	7	33
politics in general	7	19	7	33
negative media response to the bidders actions	4	22	7	33
lack of experience in dealing with mergers on the side of the courts	4	22	7	33
Securities Market Agency	3	23	7	33
negative public opinion	2	24	7	33
bureaucracy (governmental agencies)	2	0	0	2
other: competitors	1	0	0	1
Competition Protection Office	1	25	7	33

Although the managers of the target companies had been evidently defending themselves against the bidders only in seven cases, which I have pointed out as obvious examples of hostile transactions, there were other less obvious cases. In these cases, managers rendered bidders activities difficult in a more hidden way – for instance through politics or by influencing local and wider public opinion.

Actually in eight cases top management of the target companies had been replaced immediately after the merger, in another seven cases within the first six months and in one case a year after the deal was closed. Therefore the top management in the sample was replaced in nearly half of all mergers (16 from 33) within one year after the transaction took place. Most of these cases could be nominated as hostile.

The most important motives of the sample companies to bid for their targets were ***economies of scale and different synergies*** and ***growth of market share in the existing markets***. Sixteen questioned companies marked these two motives with the highest grade – on a scale from 1 (not important) to 5 (very important – key issue) - (averages of grades in the same sequence: 3.85 and 3.82). Similarly also in the third place – as a result of the number of the highest notes (11) and the average grade (3.36) – is the motive of ***rapid growth.***

As it is clear to see in the following table (the motives are enumerated in a waning order according to the average grades) market motives combined with synergy motives and economies of scale are the leading ones.

Table 3: Takeover motives in a decreasing order according to average grades

MOTIVES	n	Averages	Standard deviation	Variance	Range	Min	Max
other motives - specific	2	5.00	0.000	0.000	0	5	5
economies of scale and synergies	33	3.85	1.460	2.133	4	1	5
rapid growth of market shares in existing markets	33	3.82	1.489	2.216	4	1	5
rapid growth of the company	33	3.36	1.537	2.364	4	1	5
access to new distribution networks	33	3.03	1.447	2.093	4	1	5
completing of the product range	33	2.88	1.635	2.672	4	1	5
financial synergies (cash flow, cost of financing...)	33	2.82	1.550	2.403	4	1	5
cost reductions in sales and marketing	33	2.70	1.510	2.280	4	1	5
entrance into new market segments	33	2.70	1.630	2.655	4	1	5
obtaining new sales points	33	2.64	1.636	2.676	4	1	5
competitor shutdown	33	2.58	1.437	2.064	4	1	5
undervalued target companies	33	2.48	1.460	2.133	4	1	5
diversification	33	2.36	1.475	2.176	4	1	5
purchase of prestigious brands	33	2.33	1.190	1.417	3	1	4
human capital – skilled labor force in the target companies	33	2.33	1.339	1.792	4	1	5
unutilized production capacity	33	2.27	1.376	1.892	4	1	5
R&D and innovation advancement	33	2.06	1.248	1.559	4	1	5
incapable target companies’ management	33	2.03	1.262	1.593	4	1	5
free cash flow of the bidder	33	2.00	1.275	1.625	4	1	5
access to new technologies, patents and licenses	33	1.97	1.311	1.718	4	1	5
good knowledge of ex-Yugoslavian markets	33	1.97	1.357	1.843	4	1	5
access to markets other than Slovenian or ex-Yugoslavian	33	1.88	1.293	1.672	4	1	5
reducing net tax liabilities	33	1.88	1.111	1.235	4	1	5
personal motives and ambitions	33	1.85	1.349	1.820	4	1	5
undervalued real estate of target companies	33	1.79	1.269	1.610	4	1	5
cheaper labor force in target companies	33	1.76	1.146	1.314	4	1	5
fast entrance into Slovenian market	33	1.76	1.347	1.814	4	1	5
concessions	33	1.67	1.164	1.354	4	1	5
break-up value of the target companies’ larger than the value of the company as a whole	33	1.30	0.810	0.655	3	1	4
defensive merger – decreasing probability of becoming a takeover target	33	1.21	0.781	0.610	4	1	5

3. Characteristics of post-merger integration

Post-merger integration is a process that is supposed to start the very first day after the transaction itself is completed (Mirvis and Marks, 1992). Beside this, the planning of the post-merger phase is supposed to start at the very moment when the company adopts the strategic decision of not only growing organically, but also with mergers of other companies. A strategic decision like this needs to be well defined and should also establish the characteristics of potential target companies, that are desired and those that are in conflict with the company's goals.

In the business environment, where mergers are relatively new (or were a few years ago), the question arises, whether bidders were familiar to the term 'post-merger integration' at all or whether they had planned any of the activities, that could be categorized under this particular term.

Nineteen of the questioned bidders stated that they had prepared a detailed plan of post-merger integration, four of them that they had done this in rough draft form. Although, we are likely to doubt the self-critics of these answers, it is completely clear that at least ten of 33 bidders had failed to prepare any of the approximate plans for the post-merger integration. Four of these have expressed their opinions about the nonsense of preparing such plans, and additional three noted that it is favorable to commit this after the merger. In one case the answer was even more immediate: "As we had no experience with mergers, we did not know that we needed one."

Similar was the due diligence of target companies performed before the merger by only twelve of the questioned companies, additional fifteen have assured that they had executed at least some of the actions that could be characterized as partial due diligence. Four of them were certain that this is completely unnecessary.

It is also of great interest that in spite of poorly executed due diligence procedures, our sample bidders still claim to have known their target companies quite well. This is partially to be explained with the small Slovenian economy and that most of the sample mergers had been between related or even competitor companies. In the majority of cases, the questioned bidders stated to have known very well the production program of the target companies (23), their technical capability (16) and financial health (16). They however admitted to have had much less information about the quality of the working force of target companies (except the top management). They also had very little information about patents, licenses, concessions and innovations, and also about purchasing (politics, strategies, channels, and suppliers) and the value of real estate.

Similarly, only thirteen of the 33 respondents had done the valuation of their targets prior to the date the transaction was completed (six on their own and seven hired external experts to do the valuation). Another three bidders had determined the approximate value in cooperation with external experts, while in the meantime, thirteen of them were certain that the valuation is not needed, as they already knew the approximate value of the target company.

Three of the respondents declared that they simply paid the price the owner had been requesting, furthermore one respondent stated to have paid the market price (the target company was not listed). It is certainly obvious that the possible overpay of the target company represents – in combination with badly (or not at all) planned and executed post-merger integration – poor fundamentals for an economically successful merger.

Table 4: Valuation of target companies before merger

HAVE YOU DONE THE VALUATION OF THE TARGET COMPANY?	Frequencies	Percentages
no, we already knew the approximate value	13	39.4
roughly, in cooperation with external experts	3	9.1
yes, we have done the valuation ourselves	6	18.2
yes, in cooperation with external experts	7	21.2
we did not deal with the valuation, we simply paid the market price	1	3.0
no, we paid the price requested by the owner	3	9.1
Total	**33**	**100,0**

Post-merger integration process had been evaluated on 29 factors grouped as: coordination and leadership of integration process, culture, communication, expertise, sales and marketing, and monitoring of integration process. On the question of the mistakes, which were done in the post merger phase, we received answers from 29 questioned bidders.

The respondents declare that they had most frequently made the following mistakes (in all these examples at least 14 bidders have done a mistake)

- overly centralized integration process with top management overloaded,
- inadequate communication strategy towards the employees,
- lack of quantitative indicators for monitoring the success of the post-merger integration,
- late execution of post-merger integration,
- not enough attention given to employees as regards their fear of losing jobs,
- late adaptation of salary/incentives system of the employees,
- inadequate communication strategy towards wider public,
- lack of coordination in market segmentation and price policy strategies.

If we only point out those mistakes, which have caused important (4) or even severe negative effects (5), then we can see the following enumerated mistakes depart from the others (each one three times):

- late execution of post-merger integration,
- overly centralized integration process with top management overloaded,
- not enough attention given to cultural aspects of the integration,
- inadequate integration marketing,
- poor integration marketing: newspapers, internet, hotlines, intranet…,
- unutilized possibilities of cross-selling potentials.

Average values of grades for the listed mistakes present a quite similar picture:

- overly centralized integration process with top management overloaded,
- late execution of post-merger integration,
- lack of quantitative indicators for monitoring the success of the post-merger integration,
- inadequate communication strategy towards the employees,
- late adaptation of salary/incentives system of the employees,
- not enough attention given to employees as regards their fear of losing jobs,
- lack of coordination in market segmentation and price policy strategies.

Based on all three criteria, more or less the same mistakes were exposed by our sample of bidders. Summarized, these are: overload of top management with integration process, lack of control and monitoring of the process, late start of integration, inadequate communication with employees, late adoption of new salary/incentives systems and unutilized possibilities for the realization of market synergies.

On the other hand it is also interesting with which problems the interviewed bidders had less difficulties. Only two of them had stated to have faced the undesired fluctuation of employees after merger, three of them to have witnessed parting of key employees (in one case this is believed to have had negative effects). Only in two cases bidders had to face serious loss of knowledge and skills with the parting of key experts, but in both examples without any critical negative effects on the company.

Low levels of employee fluctuation following the mergers can not be attributed to well managed post-merger integrations. A more viable explanation seems to be in the fact that the labor force in Slovenia is generally poorly mobile.

Overly decentralized coordination of the integration process, poor monitoring and decisions made on too low levels were mistakes admitted by only two of the questioned bidders, which did also not put any emphasis on these mistakes.

Table 5: Mistakes in the post-merger process – descriptive statistics

MISTAKES MADE:	n	Average	St. dev.	Variance	Range	Min	Max
COORDINATON							
integration process poorly planned	29	1.7586	1.0907	1.190	4.00	1.00	5.00
late planning for integration	29	1.6897	1.0387	1.079	3.00	1.00	4.00
late execution of integration	29	1.9655	1.0516	1.106	3.00	1.00	4.00
overly centralized integration process with top management overloaded	29	2.2414	1.0907	1.190	3.00	1.00	4.00
overly decentralized integration process; poor monitoring, decisions made at too low levels	29	1.3103	.6038	.365	2.00	1.00	3.00
promises that could not be kept	29	1.4483	.7361	.542	2.00	1.00	3.00
CULTURE							
too little attention given to cultural aspects	29	1.6897	1.0387	1.079	3.00	1.00	4.00
not enough attention given to employees as regards their fear of losing jobs	29	1.8276	.8892	.791	3.00	1.00	4.00
late adaptation of salary/incentives system of the employees	28	1.8929	.9940	.988	3.00	1.00	4.00
undesired labor force fluctuation	28	1.2500	.7005	.491	3.00	1.00	4.00
key employees leaving to competitors	28	1.2857	.7629	.582	3.00	1.00	4.00
COMMUNICATION							
poor marketing of the integration process: newspapers, internet, intranet, hotlines…	29	1.6552	1.0782	1.163	4.00	1.00	5.00
inadequate communication strategy towards employees	29	1.8966	.8596	.739	3.00	1.00	4.00
inadequate communication strategy towards business partners	29	1.5517	.8275	.685	3.00	1.00	4.00
inadequate communication strategy towards owners	29	1.4483	.7831	.613	2.00	1.00	3.00
inadequate communication strategy towards public in general	29	1.6207	.7277	.530	2.00	1.00	3.00
inadequate communication strategy towards government agencies, lobbying	29	1.4138	.6823	.466	2.00	1.00	3.00
KNOWLEDGE							
loss of expertise due to key employees leaving	29	1.3103	.6038	.365	2.00	1.00	3.00
inadequate knowledge management using the best practices of both companies	29	1.7241	1.0986	1.207	4.00	1.00	5.00
too much focus on costs reduction and too little attention given to innovation	29	1.4828	.7847	.616	3.00	1.00	4.00
SALES & MARKETING							
inadequate sales strategy	29	1.7586	1.0907	1.190	4.00	1.00	5.00
inadequate agreement regarding sales areas	29	1.7586	1.0231	1.047	4.00	1.00	5.00
lack of coordination in market segmentation and price policy strategies	29	1.8276	1.0025	1.005	3.00	1.00	4.00
inadequate positioning of products/services after the merger	29	1.6207	.7752	.601	2.00	1.00	3.00
underutilization of cross-selling potentials	29	1.7931	1.1142	1.241	4.00	1.00	5.00
non coordinated marketing, branding …	29	1.4483	.9097	.828	3.00	1.00	4.00
MONITORING							
post-merger success monitoring not executed	28	1.7500	1.1097	1.231	4.00	1.00	5.00
lack of quantitative indicators for monitoring the success of the post-merger integration	27	1.9259	.9971	.994	3.00	1.00	4.00
poorly documented integration process	28	1.7143	.9759	.952	3.00	1.00	4.00

Table 6: Mistakes in the post-merger process - frequencies

MISTAKES MADE:	not done (1)	mistake has been done and … no negative effects (2)	negligible negative effects (3)	significant negative effects (4)	severe negative effects (5)	Total
COORDINATON						
integration process poorly planned	17	5	5	1	1	29
late planning for integration	19	2	6	2	0	29
late execution of integration	13	7	6	3	0	29
overly centralized integration process with top management overloaded	11	3	12	3	0	29
overly decentralized integration process; poor monitoring, decisions made at too low levels	22	5	2	0	0	29
promises that could not be kept	20	5	4	0	0	29
CULTURE						
too little attention given to cultural aspects	18	5	3	3	0	29
not enough attention given to employees as regards their fear of losing jobs	13	9	6	1	0	29
late adaptation of salary/incentives system of the employees	14	4	9	1	0	28
undesired labor force fluctuation	24	2	1	1	0	28
key employees leaving to competitors	24	1	2	1	0	28
COMMUNICATION						
poor marketing of the integration process: newspapers, internet, intranet, hotlines…	18	7	1	2	1	29
inadequate communication strategy towards employees	11	11	6	1	0	29
inadequate communication strategy towards business partners	18	7	3	1	0	29
inadequate communication strategy towards owners	21	3	5	0	0	29
inadequate communication strategy towards public in general	15	10	4	0	0	29
inadequate communication strategy towards government agencies, lobbying	20	6	3	0	0	29
KNOWLEDGE						
loss of expertise due to key employees leaving	22	5	2	0	0	29
inadequate knowledge management using the best practices of both companies	18	4	5	1	1	29
too much focus on costs reduction and too little attention given to innovation	19	7	2	1	0	29
SALES & MARKETING						
inadequate sales strategy	17	5	5	1	1	29
inadequate agreement regarding sales areas	16	6	6	0	1	29
lack of coordination in market segmentation and price policy strategies	15	6	6	2	0	29
inadequate positioning of products/services after the merger	16	8	5	0	0	29
underutilization of cross-selling potentials	16	7	3	2	1	29
non coordinated marketing, branding …	22	3	2	2	0	29
MONITORING						
post-merger success monitoring not executed	17	4	5	1	1	28
lack of quantitative indicators for monitoring the success of the post-merger integration	12	7	6	2	0	27
poorly documented integration process	17	3	7	1	0	28

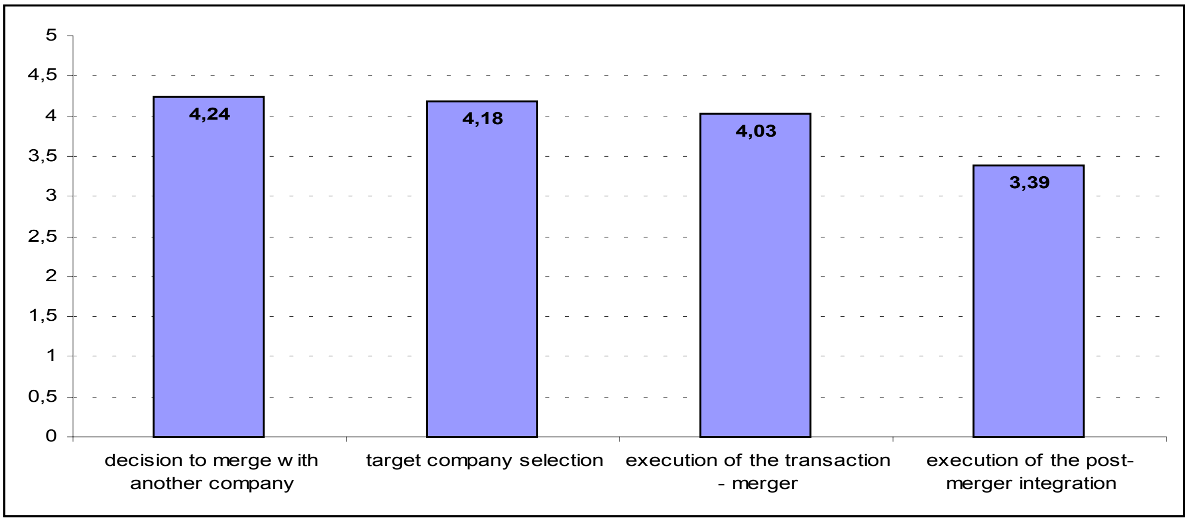
Although I have discovered many deficiencies in merger planning, post-merger integration planning and also in its execution, the majority of the interviewed bidders were nevertheless satisfied with their decisions to merge. The most interesting is that the interviewed bidders had the fewest doubts about the correctness of their decision to merge, a bit more about the proper choice of target companies, even more about the execution of merger transactions and most about the execution of post-merger integration.

Table 7: Making decisions – merger, target selection, execution of transaction, post-merger integration

HOW WOULD YOU RATE:	n	Averages	St. dev.	Variance	Min	Max
decision to merge with another company	33	4.2424	.9364	.877	2.00	5.00
target company selection	33	4.1818	.9828	.966	1.00	5.00
execution of the transaction	33	4.0303	.9515	.905	2.00	5.00
execution of the post-merger integration	28	3.3929	.9560	.914	1.00	5.00

Note: Friedman's non-parametric test: N=28; Chi-Square=21,616; df=3; Asymp. sig.< 0,000 for all the four questions and Wilcoxon Signed Ranks test for the comparison of the last two answers, among which the results are the least deferring (execution of transaction and post-merger integration): N=28; Z=-2,858; Asympt. sig. (2-tailed)<0,004.

Figure 1: Making decisions – merger, target selection, execution of transaction, post-merger integration



Managers of the companies in my sample were well aware of the fact that they lack experience in expertise especially in the phase of the post-merger integration. Namely, they had only hired external consultants in three cases for the execution for post-merger integration and in four cases for the planning of this phase. This is significantly less often than for the execution of the transaction itself, preparation of the documentation for the Securities Market Agency, due diligence, valuation of the target companies, preparation of notifications for the Competition Protection Office and even for the planning of the merger itself.

However, the largest number of managers, who had not hired external consultants, but thought it was a mistake and would do differently in the future, were convinced that they need consultants especially for the post-merger integration. This supports the thesis about the lack of knowledge and experience of Slovene managers in the area of post-merger integration.

Table 8: Hiring external consultants in different merger phases

HAVE YOU HIRED EXTERNAL CONSULTANTS FOR:	yes	no, there was no need for that	no, but it would be necessary	Total
defining merger strategies and target selection criteria	7	21	4	32
due diligence, valuation	13	17	2	32
preparation of the transaction-merger scenario	10	19	3	32
execution of the transaction	15	14	2	31
preparation of the documentation for the Securities Market Agency	13	15	2	30
preparation of notification for the Competition Protection Office	11	16	2	29
preparation of the post-merger integration plan	4	20	6	30
execution of the post-merger integration	3	20	7	30

4. Conclusions

Slovene bidders seem to have the largest share of problems with their mergers after the transactions are completed and the so-called post-merger phase begins. Actually some of the questioned managers did not know the term ‘post-merger integration’ at all, nor have they executed any of the activities that could be characterized as part of this process. The reasons could at least partially be attributed to the lack of experience and tradition in Slovene economy that only began to deal with mergers in the 1990’s.

Nevertheless, there are some similarities that seem to be close to what researchers in market developed countries have found out. Mirvis and Marks (1992) for instance have found out that managers fail to realize positive synergies that are fairly realistic, because of the stressful reactions and use of crisis management techniques after the merger. They use the term ‘merger syndrome’ for these inadequate reactions. Similarly, Slovene managers have emphasized their overload with integration management and tasks together with high levels of stress as the key mistake they made in their mergers. Because of inadequate or even no planning, execution and monitoring of the post-merger integration they were too often in situations, where they reacted with crisis management techniques.

Poor or inadequate communication with the general public and specifically with employees was also pointed out as one of the major obstacles for successful and timely conclusion of post-merger integration. More than anything, they failed to control and minimize the stress of the employees that take over different roles after the merger: winners (they get promoted), losers (they lose their jobs) and survivors (they keep their positions). Because of defective and late communication a large share of employees (especially in the target companies) faced unnecessary stress for too long. Consequently negative rumors start to spread out and a typical productivity drop in the post-merger integration phase takes longer than necessary.

On the other side, it is interesting that Slovene bidders had practically no problems with undesired labor force fluctuation or with key personnel leaving the companies (there was only one case where key experts' departure was considered significantly negative for the company). This can largely be attributed to the rigidity of the Slovene labor market and not to well-managed post-merger integrations or good communication with labor force, as managers themselves noted that they had actually failed in these two respects.

Speed and immediate beginning of the post-merger integration are the key factors for successful completion of the merger as a whole and for the realization of the synergies announced prior to the completion of the transaction (Pritchett, 1997). Roughly one third of the companies in my sample had executed a complete due diligence as well as valuation of their targets before they started their activities to gain control over another company.

This on the other side means that the majority of the companies neglected the activity, which is a crucial and enabling factor for any kind of planning and execution of the post-merger integration at all. Their relatively self-critical realization that a majority of the mistakes they did during the whole merger process were done in the post-merger phase, supports my assumption that also the post-merger recovery period was longer than necessary. In five cases I have found out that there was no post-merger integration at all in spite of the fact that managers (at least during the research) already knew that it would have been necessary.[4]

Managers also admitted that their monitoring of the post-merger process was highly inadequate. Most of all they did not have quantitative measures for monitoring of the post-merger success. In general, Slovene managers acted in regards to the post-merger integration quite sporadically and with a lot of improvisation. The statement of one of the

[4] According to Pritchett (1997) the negative trend of productivity reaches its peak in three to six months after the transaction takes place, however late and poorly planned and executed post-merger integration can actually significantly delay the recovery.

managers in our sample is illustrative, claiming the post-merger integration to be a 'never ending story'. Most of all it means that he did not start and finish the post-merger integration in the optimal time frame – actually in this case post-merger integration only started two years after the merger and was not finished even three (additional) years later.

Slovene companies and their counterparts in the west both seem to have most of their problems during the post-merger integration phase. The problem is that this phase is the key one and actually decides whether the merger makes sense or not. On the other hand, it seems positive that Slovene managers were able to recognize their mistakes and lack of knowledge regarding the post-merger integration.

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