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Master's Thesis

Post-Acquisition Human Resource Integration In Cross-Regional M&As

August 2014

Graduate School of Seoul National University

International Commerce, Graduate School of International Studies

Dong Wook Lee

Confirmation of Thesis

Post-Acquisition Human Resource Integration In Cross-Regional M&As

Yeong-Seop Rhee

Submitting a master's thesis of International Commerce

May 2014

Graduate School of Seoul National University

International Commerce, Graduate School of International Studies

Dong Wook Lee

Confirming the master's thesis written by Dong Wook Lee

July 2014

Chair Dukgeun Ahn **(Seal)**

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Abstract

Post-Acquisition Human Resource Integration in Cross-Regional M&As

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M&As in today's world are constantly on the rise. With soaring rates of failures in M&As, there has been a wealth of research conducted on their cause. Recent trends in research have shown shortcomings regarding human, or "soft", factors, not "hard factors" such as accounting, revenues, profit ratios, etc., in integration which account for the failures of the M&As. However, although lots of research has been done, there is a lack of organization in this field with new variables being touted as important for the success of an M&A. This paper organizes the existing research into a clear, cohesive, and generic framework that is used to organize the existing variables, also to be used as a guidepost for future research to be categorized into. This is done through the adaptation of Porter's Diamond and its extension, the Double Diamond. By adapting the four corners of the diamond to represent integration, speed, management, and culture in the stead of factor conditions, demand conditions, firm strategy, structure and rivalry, and related and supporting industries, respectively, the variables that have been broached on this topic has been categorized into cohesive, inter-related factors which helps to show the areas in which research is lacking thereby directs research into those factors lacking research. This paper also suggests the use of these frameworks and Moon's ABCD Framework for a practical solution to creating a strategy for smooth and effective integration of firms that are merging through highlighting the important factors that need to be remembered.

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Keywords: M&A, Integration, Cross-Regional, Human Resource Management
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INTRODUCTION

There has been a great increase in international merger and acquisitions (M&As) from the 1990s as firms have sought to increase their competitiveness. The post-Asian economic crisis period (1999 onwards) has also seen a great increase in Asian developing economies diving into M&As as they had never previously done (Gaughan, 2010). With the wealth of existing research on strategic and financial aspects of M&As not wielding satisfactory answers to explain the failure of nearly half of all M&As, research has refocused on the human aspect of M&As to understand their role in M&As (Hogan & Overmyer-Day, 1994). In the midst of other studies that have shown even higher rates of failures, 60-80% in research conducted by Marks and Mirvis (2001) and Tetenbaum (1999), Shrivastava (1986) had noted the importance of human resource integration and synergy creation, and the lack of research in these fields at the time stating that "managerial and sociocultural integration is perhaps the most difficult and least examined post-merger integration problem" (Shrivastava, 1986).

The reason for the change towards the human aspect in the integration of firms in M&As has been because it has never been thought of as being a very important part of the integration. It has been noted as "soft" integration, something that could not be easily controlled, and therefore passed over, or ignored. The reason for the term

"passed over" is because firms have always been confident in dealing with facts and numbers, but controlling human behavior has been perceived as a task that would eventually work itself out. The history of mankind also shows that trying to control human behavior has never worked in the long run, and that trying too hard to control it has always yielded negative consequences for those trying to control, while never being seen as acceptable for those being controlled. However, more and more, there are inexplicable failures in M&As; those mergers that seemed to be a perfect match end in failure. This begged the question of what the underlying cause of these failures were, which in turn prompted scholars to look into the human effects on the integration of mergers.

The difficulty of this field of study is that there are so many variables that need to be taken into account; many of which need interdisciplinary skills. This could serve as one of the reasons why there is no research that is satisfactory to account for the failures that occur in practice. The main interdisciplinary hurdle that we face is the question of culture. Culture is a concept that has a clear definition but is quite tacit in nature. Therefore, the implication that culture has on integration in M&As proves to be a difficult issue to overcome. Almost all research dealing with culture in the integration process in M&As denote the importance of culture and the role that it plays in determining successful integration. The complication when going into cross-regional M&As, therefore, is that firms need to be able to overcome the corporate culture that is rooted within both firms, but they also have to be able to deal with the

national cultures that each firm would also have imbedded within them through the employees. It is, in essence, this aspect which remains one of the most important variables in determining integration strategies for M&As.

This paper brings together research at the forefront concerning the human side and its integration in M&As into four main factors, through the use of a modified diamond model, first put forth by Porter and then later expanded by Moon, Rugman and Verbeke. This categorization is then used in order to suggest an apt strategy for human resource integration through the application of Moon's ABCD strategy to combine the essential aspects of the integration process and the correct mix in which these strategies are needed in order to succeed in the integration of human resource in cross-regional M&As.

This is done through the diamond model being adapted through reinterpreting the four corners into the integration context, and from left to right, and then top down, relabeling them into the four factors of integration, speed, management, and culture. By using these factors, variables that have been deemed to be important in human resource integration can be categorized into these four factors. The double diamond model is then used to expand these four factors in order to create a clearer picture by dividing them into macro and micro variables from the firm perspective. This is done through dividing integration into level of integration and stage of integration, speed into overall speed, or timeframe, of integration and timing of specific changes,

management into long-term strategy and short-term goals, and culture into national culture and corporate culture of both firms.

The ABCD framework is then used to derive some of the more relevant variables within these factors in order to create a subset of six areas for firms to direct their attention when creating a strategy for integration. These six inter-related subsets can then be constantly updated as the integration occurs in order to adjust the strategy for relevance, thereby assisting in the smooth and efficient integration of both acquired and acquiring firm.

LITERATURE REVIEW

Background

Current research on the human side of mergers and acquisitions was organized and combined by Marks (1982) when he compiled the research that had been done up to that point. He found significance in the turnover of top level managers and the research that pertained to the impact of M&As on employees and its effect on the firm as a whole (Marks, 1982). This was a base on which Shrivastava (1986) went on to expand the need for a strategy in personnel transfer and organizational structure. This

involved encouraging the retirement of some staff and what was necessary in order to retain the talent of the acquired firm (Chakrabarti, 1984), or employee turnover. The impact of the M&A on individual employees was also a point of interest. The negative impact that the acquisition had on the morale of the acquired employees and the resulting uncertainty and insecurity was important. (Shrivastava, 1986) The acquisition has the effect of employees feeling insecure about their place and future in the merged firm. This in turn results in reduced efficiency and also the introduction of new political and alliance changes in order to try and secure their place in the firm and not have to go through what they feel would be a life-altering change (Singh, 1975).

Speed

The speed with which integration is initiated has recently become a strong point of interest for scholars in the field of human resource integration. As with all arguments, there are advocates on both sides of the spectrum, some invoking the value of fast changes in human resources after the merge which others propose that too quick a change would further the impact on the overall morale of the employees.

Angwin is the predominant advocate of speed in post-acquisition integration. His first study on this topic, in cooperation with Ernst and Young (1997), suggested that the first 90 days were integral to the success of a merger. He later (2004) advocated that the first 100 days was the most important in making a merger successful.

Angwin's theory was based on the giant of M&As, GE Capital, and their procedures (Ashkenas, *et al.*, 1998), the works of Feldman and Spratt (1999), Lajoux (1998), and Pritchett (1997). All of these previous studies and case studies had shown that the first 100 days were the most critical in making integration decisions.

Ashkenas, DeMonaco, and Francis (1998) based their paper on the evidence of GE Capital and their acquisitions and integration techniques. The significance of the use of GE Capital as an example lies in that GE Capital has actively been engaged in M&As for the expansion of their business, and they are also renown in the field as having reaping some of the best successes in the M&A arena. GE Capital, through their extensive experience, has been fine-tuning their integration methods which was codified and is currently known as the Pathfinder Model (Figure 1). The base of the theory of speedy integration comes from the third step of the model, which calls for rapid integration. The strategy that Ashkenas *et al.* put forward goes as far as to say that the "decisions about management structure, key roles, reporting relationships, layoffs, restructuring, and other career-affecting aspects of the integrations should be made, announced, and implemented… within days" (Ashkenas, *et al.*, 1998).

Further support for rapid integration has put forward by Reed, Lajoux, and Nesvoid (2007), a later publication of Lajoux's study mentioned above, suggests that "no one has ever suggested a minimum, but a number of companies have suggested maximums… with the most critical phases completed in three months or, more

poetically, 100 days"(Reed, *et al.*, 2007). They state that speed in integration is a logical deduction from numerous studies that have taken place previously which show correlation between speed and success of a merger.

However, on the other end of the spectrum, other scholars have advocated that if the integration is too fast, it would do more to destabilize the integration process than yield benefits. The main scholar who advocated a more gradual integration period was Yunker (1983), who argued that it is risky for firms to change too much very quickly. He also argued that in regards to human resource integration that it could take as long as five years for complete integration. Buono and Bowditch (2003) gave credence to Yunker's point of view by stating that employees expect change to occur after a merger, and it is important to give them the change that needs to occur, but not too quickly or too much as this would serve to destabilize the employees and could have undesired effects.

Level of Integration

Another important aspect when considering integration associated with a merger is the level of integration. Depending on the type of merger, the need for certain amounts of integration may differ. In this respect, the model that is most commonly referred to and used is the model put forth by Haspeslagh and Jemison (1991).

They proposed that there were four main levels of integration in a merger. These were based on two dimensions which were the degree of the desired strategic interdependence between the two firms, and the need for the acquired firm to retain autonomy (Figure 2). There are four factors that are considered when determining the level of strategic interdependence of the two firms and they are: resource sharing, functional skills transfer, general management skill transfer, and combination benefits. Resource sharing refers to the value that is created through the combination of the two firms at the operations level. Functional skills transfer is the value that is created through the sharing of knowledge and assets. General management skill transfer refers to the value that is created through the transfer of good management practices. And combination benefits refers to the value that is created as a result of the two firms coming together in terms of assets, leverage capabilities, market share, etc. The organizational autonomy is determined based on if autonomy is absolutely necessary in order to retain the strategic capabilities that were the target of the acquisition, how much autonomy should be given, and which areas autonomy is essential.

This resulted in a two by two matrix on the levels of integration: Preservation (low need for interdependence, high need for autonomy), Holding (low need for interdependence and low need for autonomy), Symbiotic (high need for interdependence, high need for autonomy), and Absorption (high need for interdependence, low need for autonomy) (Haspeslagh & Jemison, 1991). Preservation is a level wherein the acquiring company wishes to retain the advantages of the

acquired firm and therefore takes a more advisory role; to nurture the acquired firm to full potential. Holding is a level in which no real integration between the two firms needs to occur in order to create value; the value is created through greater financing capabilities, spreading of risk, general management capabilities, etc. Symbiotic is a level in which there is a clear separation between the firms but there also needs to be a capability to transfer knowledge and assets when the needs arise. Absorption is a level wherein the acquired firm becomes a complete part of the acquiring firm; complete integration of all management and processes occurs.

Pablo (1994) defines three levels of integration; low, moderate, and high. Her theory levels of integration are broadly similar to Haspeslagh and Jemison's (1991) proposal but differ in that it was an empirical study based on the responses of top-level managers. It also does not take into account the purpose of the acquisition but simply the responses of the managers to different situations and choices. The low level of integration is the standardization of basic management systems and communication processes while giving greater freedom in other areas. The moderate level of integration is more changes to the value chain and changing the overall decision making structure. The high level of integration is almost a complete absorption of the target firm into the structure, both organizational and cultural, of the acquiring firm (Pablo, 1994).

The integration levels are proposed through different bases of study, but the important point to take into account is that there are clearly different levels of integration that are present when a merger takes place. A logical deduction can also be made that there are different strategies that are suitable for different types of acquisitions depending on the level of integration that is sought.

Other Approaches to Integration

Post-acquisition human resource integration has been approached from various different perspectives; from cultural and psychological to business and strategy. Although a relatively new area of interest to scholars, there has been no shortage of research. The research, however, has been dispersed over a large spread of variables.

Stahl *et al.* (2013) have attempted to bring the relative studies into synthesis. They discuss the prominent research to date and also give direction towards possible future research. Their research distills the scattered variables related to sociocultural and human resource issues down to variables concerning "cultural fit, management style similarity, the pattern of dominance between merging firms, the acquirer's degree of cultural tolerance, leadership philosophy and approach, integration speed, and the social climate surrounding a takeover" (Stahl, *et al.*, 2013). The purpose of their research was not to present a new perspective or to give practical solutions but to synthesize the current research in order to give a clearer direction for future research.

In this respect, by eliminating and combining variables to a clearer and concrete base, they were successful to a certain degree. However, even these variables have overlaps which could be synthesized further.

Perhaps one of the more comprehensive studies published on the effects that integration has on the employees was by Seo & Hill (2005). They broke down the existing literature into six underlying theories: anxiety, social identity, acculturation, role conflict, job characteristics, and organizational justice theories (see Table 1). They then took this prior research and organized them into which stages they affected the integration process most. They divided the stages of the M&A into the premerger, initial planning and formal combination, operational combination, and stabilization stages, respectively. They then took the underlying theories and fit them into each stage, seeing how much impact each theory had in each of the stages (see Table 2) (Seo & Hill, 2005). The largest impacts of the variables occur in the initial planning and formal combination stage and the operational combination stage, in the mainly in regards to identity in the former and identity and culture in the latter. This lends credence to the importance of the culture and identity theories that Seo & Hill put forth.

Other recent studies have also attempted to organize the research thus far into various approaches, frameworks, and models. It should be noted that the research proposed below is very recent and thus has not stood the test of time. However, it is

still noteworthy in that it draws a picture of where the current direction in this specific field is headed and the main variables that are considered.

The Phases approach, that Quah and Young (2005) have broached, deals with the level of integration, post-acquisition changes, the timing of changes, cultural influences, and the employee behavior in the acquired firm. They posit that changes need to take place in phases, each of which have clearly defined goals and actions, in order to account for the difference in corporate and national cultures and to keep employees from exhibiting negative, counterproductive, behaviors (Quah & Young, 2005). This study shows the direction in which research has moved, from domestic to international M&As and the difficulties that arise when integration needs to occur, not just across organizational cultures but also, across international cultures.

Colombo, Conca, Buongiorno, and Gnan (2007) also put forth the Process-oriented approach. This empirical study approaches this topic from the view that integration, further the M&A itself, should be approached as a process. Therefore, instead of approaching the issue of integration in steps, firms should see the whole M&A from beginning to end as a single process. Firms need to conduct prior research, make plans on how to most efficiently approach the integration, and then carry out the premade plans that have been gleaned from the information that has been made available from the beginning, resulting in the process (Colombo, *et al.*, 2007). This approaches the topic from a larger picture, as compared to the research conducted by

Quah and Young in that Quah and Young approach their integration strategy post-acquisition whereas Colombo, *et al.* approach it from the onset of the M&A. However, the major difference in their research comes down to the speed in integration; Colombo *et al.* advocate for an emphasis on speed in integration, while Quah and Young support a more gradual approach to the issue (Colombo, *et al.*, 2007) (Quah & Young, 2005).

Rottig (2013) published a view that used a marriage as a metaphor for modeling sociocultural integration. His view was that as there are three main stages in getting married, there are three main stages in integration of firms. What he does is to combine the existing literature on the topic. Rottig divides the existing literature into three parts: pre-M&A period (contingency literature), closing period (lack of research), and the post-M&A period (process literature). These are then likened to three stages in marriage as the dating period, the mating period, and creation period, respectively. He concludes that these three phases are considered separately in conventional literature but that they are all inter-related and need to be viewed in accordance with each other (Rottig, 2013). Rottig (2013) attempted to create a clearer, bigger picture, trying to show the importance of looking at the existing literature, not as separate but as inter-related and needing the attention of firms. Although he approaches this from a fresh perspective, Rottig's views are largely in line with the process oriented approach.

Limitations

There are three main limitations to the current research. The first is the fragmentation of the existing literature. As noted by Rottig (2013), the existing research is based either on the pre-M&A phase or the post-M&A phase, with the closing phase lacking research. This poses a difficulty in attempting to synthesize the relevant literature into a framework that is easily understood and easily applicable. Also, the research conducted by Stahl *et al.* (2013) states the mass of variables that have been researched in association with the human resource and sociocultural integration between firms intertwined in an M&A. This results in numerous variables, including those that have not been categorized into mainstreams of theory, which creates confusion as to which variables have strong relevance to the subject matter.

The second limitation lies in that there is no convincing encompassing, or eclectic, framework. There is existing literature that attempt to point out this shortcoming and they gather different literature in attempting to create applicable strategies and frameworks, but the results are not applicable to all situations. The reason behind this being that there are too many variables to keep in mind, as mentioned previously, and scholars keep adding more variables to explain different phenomenon. Up to date, the only relatively comprehensive and convincing framework was drawn up by Haspeslagh and Jemison (1991). However, the shortcomings of this framework is that it shed light on the fact that there needed to be

different strategies for different levels of integration, but did not give compelling strategies which firms could follow in order to reach those integration plans, and the study did not encompass the variables that have been put forth as being relevant and important since then.

The third limitation is that most of the existing frameworks have not withstood the test of time. This last limitation is difficult to overcome as the business environment has been changing so rapidly. However, a properly over-encompassing framework should be able to take all the basic factors and be useful in applying them to strategy. Hence, the frameworks that were mentioned above in the final section of the literature review concerning the trends in which the current research is going have not been proven in the real world.

In conclusion, the trend for M&As is growing faster and faster. And these M&As have long since been limited to occurring within the borders of one country, or even within a certain region. The lack of an overarching framework causes further research to remain fragmented and difficult to put together. An easy to understand comprehensive, overarching, generic framework and strategy for its application is in desperate need; something that can help scholars and executives alike to categorize the different fields of study and to correlate and see the relevance between them and then apply them to practice. There is scarcely a lack of research in this field, although there

are many aspects which warrant further study, but there has been a lack of categorization and organization of the wealth of knowledge that scholars have created.

RESEARCH PURPOSE

Human Resource Integration

There is, to the author's knowledge, no proven comprehensive, or generic, strategy that could help to assist the human resource integration process in M&As. Therefore, in order to remedy this, the author has attempted to compile the leading and accepted theories and frameworks available to date, and create a generic framework and strategy within which the existing research can be organized and then used in whichever way would be necessary.

As mentioned above, the growing trend of international M&As and the difficulty arising in the understanding of the many failures has prompted the author to search into this field. As noted in the literature review, there is a wealth of knowledge from prior research which has not been adequately structured, which the author believes to be a reason as to the fragmentation of the research. As scholars continue to improve upon this fragmented research, the results become even more fragmented,

with relevance between topics becoming blurred and application of the research becoming more difficult.

The reason for this research being based upon cross-regional M&As is to broaden the field and to attempt to include all relevant studies within the strategy. Domestic M&As have had a long history, and cross-border M&As with countries in the same region or with countries with similar national cultures have also arisen, but M&As between firms from two different cultural backgrounds are currently on the rise. The reason for the choice in the term cross-regional is to emphasize the differences that exist between regions, whether domestic, international, continental, or cultural, but also in order to embrace all the different types of studies that have been conducted on the topic of M&A human resource integration.

This paper, therefore, embraces all relevant studies, and attempts to find a place for all literature and research to be categorized or redefined into. This paper does not incorporate all relevant studies, but a few representative studies and research has been chosen to endeavor to meet the need for organization in this field.

The main purpose of this research is, one, to represent a cumulative picture of what kind of research has already been done, two, to organize that picture into an easily comprehensible manner, and three, to build a framework upon which further research can take place and from which strategies for integration can be deduced.

The cumulative picture is necessary because of the abundance of research which is based on this field. The purpose of creating this picture is in order to gather the studies that are relevant to human resource management and pool them separate from other research that is based on integration of firms through M&As.

The organization of the existing research is necessary because of the fragmentation of the information. There has been a lot of research and there are currently more studies being published in this field, but there is a difficulty in understanding how the research is interlinked, what parts of integration they are related to. As there is no overall structure to the wealth of research, future research will, as a result, remain fragmented until an easily understandable and comprehensive structure is available.

Therefore a framework will be proposed in order to create order in the forests of research in this field in order to organize and structure the existing research. There are two purposes for the proposed framework. One is for the existing studies to be categorized into the framework, and thereby allow a snapshot view of what research has been done in which specific field, and also allow practitioners to be able to be more efficient and effective in their search for better integration methods. The second is so that through the categorization of the research, the framework would allow future research to be conducted in a more organized manner, while also, through constant

update, be a structure from wherein the search for prior research and studies can be eased.

METHODS

Theoretical Frameworks

This paper will make use of the diamond model that has been put forth by Porter, the double diamond model by Moon, Rugman and Verbeke, and the ABCD framework by Moon. The two models will be used to categorize the variables into cohesive segments and the framework will be used in order to create a strategy platform to apply into practice.

Porter's diamond model (see Figure 3) is a useful model that can be used to incorporate the variables associated with the integration process. Porter (1990) created this model for the use of analyzing the competitive advantage that nations had, and in this regard, it also shows the disadvantages that a nation has. This model has been used in various ways to explain not just the competitive advantage of nations, but also firms. The advantage of this model is that the factors are broad and all-encompassing; therefore they are able to show the relationship between the factors. Also, an important

aspect of this model is that it is not static but dynamic, meaning that the factors can influence another factor within the diamond. In this paper the author makes use of this model to explain where the variables put forth by prior research belong in the big picture.

To further explain and categorize the factors into more a more cohesive and applicable manner, the author uses Moon, Rugman, and Verbeke's (1995) double diamond model which took Porter's diamond model and enhanced it and so that it would account for the international side of competitiveness. They used this approach in analyzing small nations and their competitiveness in the international context as Porter's original model had been proven inadequate in explaining the competitiveness in the international sphere. In this paper the author uses this model in order to differentiate the different factors and their influences on the micro and macro aspects of the main factors proposed as a basic categorization into four factors would prove inadequate to fully explain the influences that the factors have on each other.

Moon's (2012) ABCD framework is a good base for building a cohesive structure from which to build a strategy. Although it is originally based on the competitive strategy for developing countries, with the example of Korea, it can be a useful tool in applying integration strategies in merging firms. This framework will be used to organize the integration needs and further to serve as a base from which specific integration strategy can be built upon.

Methodology

The author synthesized prior research, picking and selecting relevant material and attempted to reorganize them into the models and framework mentioned above. This has been carried out through the research mentioned in the literature review and also prior case studies. These will be cumulatively categorized into relevant groups, thereby allowing for a cohesive, big picture view of the research and research trends, albeit static.

Because of the fallibility of the author, and the constriction of time, the author represents research that is clearly related to the past and current trends of human resource integration. However, the author will take care to address accepted theories and will use his discretion in deciding what the current trends of human resource integration are. The author notes that this work is in no way totally comprehensive in research available, theories presented, or frameworks proposed.

Therefore the author will also attempt to make these categorizations as generic as possible in order for the resulting models and framework to be applicable to other and future research. By doing so, the author's goal is to be able to create a clearer picture for more organized direction for future research while also allowing for current research to be viewed and understood in a more comprehensive and easy manner.

APPLICATION OF FRAMEWORKS

Porter's Diamond Model

The four corners of the diamond model are divided into factor conditions, demand conditions, firm structure, strategy and rivalry, and related and supporting industries, as is represented in Figure 3 Porter's Diamond Model (Porter, 1990). In order to be applicable to the framework proposed, the author reinterpreted these factors as input factors, output factors, soft (can be changed) factors, and hard (difficult to change) factors. The reasoning behind this reinterpretation is as follows. The factor conditions are described in Porter's diamond as being the human, physical, knowledge, and capital resources (Porter, 1990). This can then also be described as the factors that are put into production; the raw ingredients that are needed to produce, if you will, hence the input factors. The demand conditions are described as the ability of the buyers to pressure the producers for more affordable, innovative, and advanced products (Porter, 1990). This can then be interpreted as the output factors, of the end product affecting the process by which it came to be. The firm structure, strategy, and rivalry is the way in which firms are created, their short and long term goals determined, and the rivalry that affects the competitiveness of the firm (Porter, 1990). This can be interpreted to be dynamic factors, factors that can be changed by the firm with relative ease, in reasonable degrees, in order to act upon the situation or

environment that confronts them; thereby be interpreted as soft factors. The related and supporting industries is described as being in the periphery but also essential to competitiveness through providing low cost inputs and upgrading themselves in order to keep abreast with the innovation taken on by the primary firm (Porter, 1990). This can then be interpreted as factors that are not easily changed, and sometimes cannot be changed; factors that the firm has no direct control of, and therefore described as hard factors. By reinterpreting these four corners, application to human resource integration can then occur through their relabeling.

The author relabeled the four corners as integration, speed, management, and culture, respectively (Figure 6). The reasoning for this is that the existing literature can be categorized into these four categories. Integration refers to the level of integration that is required or wanted, and it also can refer to the stage of integration that the firm is at. It is the input factor as it determines the results how integrated the firms come out after the acquisition, or product if you will. The speed factor refers to the speed in which integration should occur; this would be in relation to restructuring, executives or lower level managers and employees. This can be seen as the output factor as it is determined by the input factor but it can also affect the input factor in that the expectations of the shareholders and the profitability of the firm have to be kept in account. The management factor refers to the way in which management is handles the integration process. This is the soft factor because different strategies and different ways to approach the acquired company are reasonably easy to set and change while

also affecting the overall climate of the merger and therefore how smoothly the integration process is handled. The culture factor refers to both the corporate culture and the national culture of the employees and the employers. This is the hard factor because both corporate and national culture cannot be changed easily and the acquiring firm does not necessarily have a direct and immediate control over the culture of the firm while smooth acculturation could have a significant impact on integration processes.

Moon, Rugman, and Verbeke's Double Diamond Model

Moon, Rugman, and Verbeke extended Porter's diamond model to incorporate not just the national competitive advantage of a nation but to include the international spectrum as well (Moon, *et al.*, 1995). Likewise, the author has extended the diamond to the double diamond by looking at the integration research from the micro and macro points of view. The reasoning behind this extension is that although the four factors can encompass the existing variables that are pertinent to this field, through extension, it is able to provide a clearer categorization of the variables while also allowing for the distinction between the overall picture with the smaller tasks that need attention in integration. The larger understanding needs to occur for the direction in which the firm needs to go whereas the smaller diamond allows for a better understanding of the smaller pieces of the puzzle that need to be fit in for a smooth integration process.

The corners would then be expanded to integration factors accounting for the integration level that the acquiring firm wants to exhibit (larger diamond) and the stage of integration that the two firms are at (smaller diamond). The speed factor would be expanded to take into account the overall speed with which to implement changes (larger diamond) and timing of the important changes (smaller diamond). The management factor would be expanded into the long term strategy that the firm has for integration (larger diamond) and the short term goals (smaller diamond). And the culture factor would be expanded into the national cultures that clash between the acquired and acquiring companies (larger diamond) and the corporate cultures that clash between the firms (smaller diamond) (Figure 7).

The difference in the integration factor lies in dividing the level of integration wanted and the stage of integration that the firms are currently in. The level of integration that the acquiring firm wants to exhibit with the acquisition would determine the extent to which integration takes place, which would also affect the overall speed of the integration, the long-term strategic goals for integration, and the effect that culture may have. The stage of integration allows the firm to see what stage of integration they are in which would then affect the timing of the change of key personnel or executives, if at all, the short-term goals and strategies for integration, and the adoption or transplantation of corporate culture.

The difference in the speed factor is the speed of the overall integration through to complete integration and the speed with which important changes are carried out. The speed of the overall integration, as has been put forth by many scholars cannot be rushed. Mergers need to stand the test of time in order to be considered a success. Scholars agree that the success of a merger cannot be determined for a few years at the least and Searby (1969) makes mention of a merger that even after a full decade were essentially separate entities, still competing against each other in the market. This overall speed of integration would have an impact on the long-term goals and strategies of the integration of the firm, depending on the requirements of the interested parties, it would have an impact on the integration levels that are to be attained, and it would also affect the culture in that it would affect the amount of cultural sensitivity that may be shown. The speed with which important changes are made is very controllable and, as has been advised by many scholars, should take place quickly. Therefore this speed factor, depending on the requirements of the environment, would have a very direct effect on the stage of integration as key positions are filled with those who are chosen by the acquirers. It would also affect the short-term goals and strategies for integration, through layoffs and turnovers, and it would also affect the amount and speed of communication between the firms, although communication is emphasized as being of paramount importance in almost all integration literature (e.g. Shrivastava, 1986; Ashkenas, *et al.*, 1998; Quah and Young, 2004; Colombo, *et al.*, 2007). It also affects the speed with which corporate culture

changes within the two firms, whether the acquiring company adopts the acquired company's culture, vice versa, or a mix of the two.

The management factor is the broadest category of the four factors. This is because much literature concerns managing different human resource issues such as brain-drain, trust, job-insecurity, communication, etc. What complicates matters further is the importance of many of these variables in both the micro and macro sense. The easiest variable to grasp this problem with is the communication. Communication, as mentioned above, has proven to be a very important variable in integration and therefore it is a micro variable, concerning the firm's shorter-term integration, however, communication also has a direct effect on other variables such as brain-drain and turnover, which can have a profound effect on the long term integration. Management, in essence, is the decisions that are made concerning the employment. Therefore, the longer-term management issues concern the variables mentioned above such as brain-drain, turnover, and replacement of executives. This affects the long-term goals and strategies of the integration in that if the employees that end up leaving the firm were the ones that were creating the competitiveness for which the firm was acquired in the first place, the acquisition loses its meaning. Therefore these types of variables would have an effect on matters such as how much autonomy is or is not given, and therefore affects the level of integration that the firms aspire to achieve, it also affects how much cultural sensitivity is shown to the acquired company, and it affects the speed of the overall integration and, in a smaller sense, affect the timing of the changes in key

positions. The shorter term management has to do with variables such as trust and role confidence, variables which affect the immediate day to day activities and productivity of the firm. This would then have an effect on the stage of integration, how soon the integration is able to move from post-acquisition to stabilization, the corporate culture, how and how quickly it is changed, and the speed with which change in key positions can be carried out without destabilizing the acquired firm and its morale.

The culture factor is the most elusive factor in that both national and corporate cultures are diverse and no two are exactly alike. The national culture is considered to be the more macro factor because of the amount of influence that it has on an individual. The national culture is more pervasive but it affects the firm more from the societal point of view; the acquired firm is in its home country and therefore the environment is of that specific country's national culture. Depending on the pros and cons of this national culture, it could affect the level of integration that a firm wants to exhibit, the speed of overall integration, and the long-term goals that it has for the acquired firm. The corporate culture has a more direct effect on integration in that it would be easily noticeable and would clash with one another with more impact. This would affect the day to day operations, where constant communication would be necessary as to the practices that the combined firm would move towards, the decision to weed out, keep, or mix the cultures would also be made. This would also affect the speed with which key roles are replaced because of the influence that those key

personnel may have. It would also affect the stage of integration indirectly through the effect that it has on the speed of integration.

Moon's ABCD Framework

The ABCD in Moon's ABCD Framework stands for Agility, Benchmarking, Convergence, and Dedication. These are further broken down into speed and precision for Agility, imitating and global standard for Benchmarking, mixing and synergy-creation for Convergence, and diligence and goal orientation for Dedication (Moon, 2012). The core of the existing research can also be categorized into these categories, which builds a foundation for strategies that can be carried out in the real world.

Once the four corners of the diamond have been decided, a decision reached on the larger diamond, Moon's ABCD Framework can then be used to formulate a workable strategy for achieving integration. It allows for constant reevaluation and a continuous cycle to gain greater competitive advantage, providing a clearer strategy for a swift and successful integration.

Agility is divided into two parts, speed and precision. Both are valuable and are needed in order to get ahead of the competition. The author allocated the overall

speed, or timeframe, in which to carry out change into speed, and the timing of change to be carried out into precision. This is because the speed with which change and integration is carried out is pointed out to be very important in much of the current research but the timing of individual changes, the precise timing, is just as important as it affects overall morale and individual psychological state of the employees.

Benchmarking is divided into imitation and global standard. The author related the use of successful strategies of other M&As and the experience from prior M&As to imitation. However, global standard was changed to mean the corporate standard, as in what needs to stay inherently the same for that specific acquiring firm. The importance in imitating others' successes in integration processes cannot be overemphasized as this is the most efficient manner in which integration expertise can be garnered. However, it is also important to remember that the corporate strategy, structure, or culture may not be ideally suited for imitation, which also calls for consistency in methods of practice for integration throughout the whole firm.

Convergence is divided into mixing and synergy-creation. The integration level that the acquiring firm wants to achieve is related to mixing. And the best practices that can be learned from the acquired firm in order to enhance the acquiring firm are categorized under synergy-creation. Mixing relates to what to put together, and in the context of integration this would be considered to be the integration level as this determines how much of the two firms needs to come together. The best practices

are categorized under synergy creation because a firm constantly needs to evolve, to make it more competitive, and there is no better way than to gather and learn from the acquired firm something that they do better. Therefore, a certain level of integration needs to be decided, but at the same time, learning the best practices of the acquired firm and how best to conduct integration in order to foster those best practices should also be of concern to the acquiring firm.

Dedication is divided into diligence and goal orientation. This is the section in which the base of the strategy sits. The diligence can be likened to the due diligence that firms conduct during the course of the M&A. However, in this case, the due diligence that is referred to are not the facts and numbers that are exchanged, which can also be called "hard" due diligence, but the cultural fit and the cultural tolerance of the firms, which can be called "soft" due diligence. The goal orientation is most applicable to all cases of integration and it is communication. Communication is essential in keeping everybody on the same page and to reduce distrust to the lowest possible point. It also allows for everybody to work towards the same goal, hence goal orientation.

Application

Previous case studies conducted by other scholars provide bases for this framework to be applied. There are three major studies that can be applied to the

framework; studies conducted by Liu and Woywode (2013) on the light-touch integration conducted by Chinese corporations, both state-owned and private, by Badrtalei and Bates (2007) on the failed partnership of DaimlerChrysler, and by Ashkenas *et al.* (1998) on the successes of GE Capital's acquisitions and the strategies behind their success.

Liu and Woywode (2013) published a paper on "light-touch" integration that Chinese firms conducted in their M&A activities. This "light-touch" integration in itself is an interesting level of integration in itself. Using Haspeslagh and Jemison's (1991) level of integration, it would be categorized as being somewhere between holding and preservation but also sumbiotic because of their high potential for synergy, and using Pablo (1994), it would be considered lower than the low level of integration. This is because the way in which the acquired firms are managed, which is to say that they are not managed and they are given extremely high levels of autonomy. The authors themselves admit that this level of integration cannot be explained by their adaptation of Haspeslagh and Jemison's framework. The Chinese companies usually put themselves in a more advisory role than a decision-making role. It also seems that the main goals of these acquisitions are to gain expertise and utilize the brand equity of the acquired firms (Liu & Woywode, 2013).

If we apply the framework proposed in this paper, we see that Chinese companies are only wishing to integrate a minimal amount, which in turn affects the

other three corners. This results in the speed of integration becoming near irrelevant, and therefore management not playing a very large role, and the national culture not playing a large role either, mainly because there is minimal contact within the merged firm of the acquirer and the acquired; Liu and Woywode also point out that even when executives are present, there is only contact with that single executive. The stage of integration is almost complete as there is minimal reporting to the acquiring firm, and the acquiring Chinese firms only pronounce their presence on the supervisory boards. This results in almost all key management being retained, which in turn results in no change of the corporate culture and management of the day to day activities is near-absent but for learning.

Although largely absent of variables, the study by Liu and Woywode show that the framework in the simplest forms can be used to see the interactions between the different variables.

The case of DaimlerChrysler is of academic interest because of the fact that it was viewed as having lots of potential as it was supposed to be a "merger of equals", "a perfect union of carmakers" (Jamieson, 2001). However, after nine years, Daimler and Chrysler parted ways with both firms worse off than before. This result, according to Badrtalei and Bates (2007), was due to the clash of organizational cultures between the two giants.

If we apply the parameters of the proposed diamond framework, though, we see that culture was not the only cause for the failure of this merger. On paper, Daimler-Benz acquired Chrysler in that Chrysler's shareholders only received 0.6235 shares whereas Daimler-Benz shareholders received 1 (NY Times, 1998) which then resulted in the equity holding of 57 percent of the newly created company by Daimler-Benz shareholders, while the remaining 43 percent was owned by Chrysler shareholders. By this, although it was touted as a merger of equals, we can assume that it was, in fact, an acquisition of Chrysler by Daimler-Benz.

In order for both companies to benefit the most out of the merger, they needed to fully integrate the respective companies into one. Therefore the larger integration factor is satisfied. The negotiations also allowed for a relative time frame in which the integration was to take part; Eaton, the chairman of Chrysler at the time, was to retire three years after the merger. This meant that the larger speed factor was satisfied. In the larger management factor, it had been assumed that the executives would stay on board and help with the integration and lead the company together. The national cultures at this point were not at odds because although the acquired company was American, the new merged company was based in Germany. Up to this stage, the factors have all been relatively satisfied, which was also why the companies did not have further reservations on the merger.

The anomalies begin to rise in the smaller diamond. The stage of integration was disrupted by Schrempp, former chairman of Daimler-Benz and chairman of DaimlerChrysler at the time, when he decided to accelerate integration, affecting the speed of integration, which ended with the firing of board members and executives from the American arm of DaimlerChrysler. We can clearly see the effects that the factors have on each other. The smaller management factor was also impacted due to the dismissal of key executives of the American arm, resulting is distrust and anxiety. This whole period was not helped by the fact that the corporate cultures at the two companies differed greatly and there was no communication for move towards one or the other or even a mix of the two. The situation was further worsened when Schrempp seemingly boasted of deceiving the American company to get the better end of the deal, which sowed further distrust, and he also fired the president of DaimlerChrysler. This led to an environment of further uncertainty and distrust which resulted in a brain-drain of successful designers from the American arm, thus affecting the larger management factor (Badrtalei & Bates, 2007).

These factors, which are all inter-related, were affected by the initial clash of corporate culture and change in the speed of integration, ultimately resulting in not just the failure of the merger but also ensuing large losses to the shareholders and at the cost of 26,000 jobs in 2001 (Badrtalei & Bates, 2007).

GE Capital, on the other hand, is an exemplary case in that it has a lot of experience in the M&A field, and it has, over the years, accumulated a lot of knowledge on smoothing out the integration process when acquiring a new firm. Another aspect that sets GE Capital apart is their willingness and ability to walk away from deals that seem to be good on the surface.

Although not a case study, per se, the paper by Ashkenas, *et al.* (1998) shows the way in which GE Capital integrates its acquisitions in quite some detail. The paper outlines four main lessons that can be learned from the GE experience. The first lesson is that integration and its planning need to begin as soon as possible, in the due diligence phase, and that the process goes on into the management of the new entity. The second lesson is that integration is hard work and it needs a dedicated designated person to make sure that it is carried out properly; it is "a distinct business function." The third lesson is that decisions concerning human resources need to be made as soon as possible after the papers are signed in order to keep the employees from anxiety and uncertainty. And the fourth and final lesson is that there needs to be acculturation and quickly (Ashkenas, *et al.*, 1998).

When applied to the diamond framework, it is evident that GE has balanced out all of the four corners. By knowing the level of integration they want to achieve, they set a timeline for what needs to happen when, the key management changes, layoffs, are all decided promptly and it is made sure that these people are given notice

as soon as possible as well as any assistance they may need. They also have an integration manager, whose sole job is to help the integration happen, which then takes care of day to day and short-term management, and they encourage the employees to get together as quickly as possible, give them a common goal and task and allow them to work together creating a new synergetic corporate culture. GE Capital, through its experience of its many acquisitions has smoothed out a method that works for them. This certainly does not mean that this is an apt method for all mergers, but they have resolved all the four corners of the diamond and so that no one corner is giving a negative influence on another; they work to create synergies and to create an environment where in the acquired firms' employees are not left timid but actively involve them in order to help them learn their new roles in the firm.

DISCUSSION

The diamond model works to categorize the existing research into categories that are easily understandable and generic. The four corners were made to encompass as much as possible with the goal of being able to embrace all relevant research and studies in this particular field. It is, however, the double diamond that draws a clearer picture of the existing research and the direction of future research. By expanding and clarifying the perspective from which research is done into micro and macro perspectives, it is able to shed light on the difficulties and fears that both sides have when faced with human resource integration.

This allows for future research to be conducted in a more orderly manner and also for current researchers to be able to find relevant theories and models from which to gain better understanding of the field and makes it more efficient for scholars to conduct further studies into the shortcomings of existing research.

The adaptation of Moon's ABCD framework also allows for clear understanding of the kind of research that has been conducted and to what end the research is being conducted. As is originally the purpose of Moon's ABCD framework, its adaptation for human resource integration also opens the doors for practitioners to be able to see the type of research that has been conducted in this field. This allows for the creation or refinement of integration strategies that would yield higher success rates in the eventual merger of two firms.

LIMITATIONS AND CONCLUSION

The greatest limitation of the research is that it was in no way a comprehensive or exhaustive research, which leaves the implication that there is research and studies that the author has not included in this study. However, to this end, the author has strived to keep the terms and categories broad and generic intentionally to be able to account for other research pre-existing or to come in this field. Therefore the proposed

frameworks and models need to be constantly updated in order for them to be as relevant as possible to the research ongoing.

Another limitation is that the author has overlooked important factors that are important and necessary in this field. There are two factors which the author did not include; these two factors are included in Porter's diamond model, which are the government and chance factors, both of which are relevant in this field also. However, research on governments and their involvement in M&As can only be present in case studies as they are dependent on the countries in which firms are conducting M&As and the chance factor is also an area wherein it is not possible for research to be predictive, although concentrated studies into this area could yield possible contingency plans, prescriptive research would not seem to have universal application.

The adaptation of the diamond model and the double diamond has cleared up the picture of existing research, categorizing them into the relevant factors and giving an overall picture of what sort of research has taken place thus far and the trend in which studies are headed.

This has been achieved through the four corners being adapted to represent integration, speed, management, and culture. All of the variables that have been mentioned, and those that the author has read in other research but not included, can be fit into these four factors.

Through the expansion to the double diamond, the four factors were then extended to further categorize the macro and the micro variables that fit into these factors, in order to create a clearer picture. The integration factor was divided into the level of integration for the macro, and stage of integration for the micro. The speed factor was divided into the overall speed of integration as the macro, and the timing of specific changes as the micro. The management factor was divided into the long-term strategy that the acquiring firm needed to keep in mind, and the short-term management goals that they needed to achieve. And the culture factor was divided into national cultures of both acquiring and acquired firm in the macro, and the corporate culture of both firms in the micro.

The application of the ABCD framework to the field of human resource integration has also shown promise in gathering and organizing the existing research into a tool with which further research can be conducted and a base from which strategies can be conceived. By dividing relevant variables within the four factors into the 6 subsets of the ABCD framework, it creates a platform for an integrating firm to build a working continuous strategy through updating the different subsets accordingly; a strategy that works for the firm and that specific acquisition and integration process. It can also be a base for future research into the subsets that have not been adequately researched.

Through the conduct of this research, it is evident that follow-up research on Haspeslagh and Jemison (1991) research should be carried out to further detail the different levels of integration and the applicability of these in practice. There is also need for further development on the remedies for acculturation or development of more tolerant cultures, going further than if culture is good or bad for integration. From the process-view of integration, there more research needs to be conducted on the parameters of "soft" due diligence and what aspects are relevant when conducting "soft" due diligence, as its importance and necessity are repeated in many papers, but there is still a lack of information in this field.

Overall, although research into finding problems to overcome when going through integration is abundant, the author also poses that it is equally important to also find the remedies for the problems and difficulties that have already been exposed. There is also need for more empirical research as research that currently exist are few and fragmented. However, the author also recognizes that because of the sensitivity of the topic, it difficult to attain the appropriate data for meaningful empirical research.

TABLES AND FIGURES

Table 1 Underlying Theories in Merger and Acquisition Literature (Seo & Hill, 2005)

Underlying Theories in Merger and Acquisition (M&A) Literature

Underlying Theories	*Sources of Problems*	*Predicted Outcomes*	*Related Prescriptions*
Anxiety theory	Uncertainty and anticipated negative impact on career and job Prolonged anxiety and uncertainty	Low productivity Self-centered behaviors Mental and physical illness Lack of motivation	Top-down communication; social support; participation in decision making; training managers to empathize and listen to employees; golden parachutes Ongoing communication; speeding up transition
Social identity theory	Loss of old identities (organizational, professional, work group)	Sense of loss, anger, and grief Denial and refusal of change	Disengagement efforts (grieving meetings); proactively assessing strength of existing identities and framing new identities to be more appealing
	Interacting with other organization's members	Intergroup bias and conflict Acts of noncompliance	Creating a new identity; fostering cross-organizational arrangements and activities
Acculturation theory	Contact with or adjustment to different organizational culture	Acculturative stress and resistance Interorganizational tension and conflict Culture clash	Cultural due diligence; fostering multiculturalism; facilitating intercultural learning; heightening awareness of thinking and behaviors that cause culture clash to develop
Role conflict theory	Ambiguous and conflicting roles	Low productivity Low job satisfaction	Two-way communication; leadership of role clarification
Job characteristics theory	Changes in post-M&A job environments	Job satisfaction and commitment Absenteeism/turnover	Post-M&A job redesign; employee involvement in job design; job transfer training
Organizational justice theory	Perceived fair treatment of surviving and displaced employees	Psychological withdrawal Turnover	Fair and objective human resource management; equal participation in decision making; treating employees with dignity and respect

Table 2 Effects of Different Sources of Problems in Different Integration Stages of Merger and Acquisitions (Seo & Hill, 2005)

Effects of Different Sources of Problems in Different Integration Stages of Merger and Acquisitions (M&As)

		Impact of Stressors in Each Phase of M&A Integration			
Stressor	*Underlying Theory*	*Premerger*	*Initial Planning and Formal Combination*	*Operational Combination*	*Stabilization*
Uncertainty	Anxiety theory	Medium-large	Large-medium	Small	Small
Loss of identity	Social identity theory	Small	Large-medium	Medium-small	Small
Intergroup conflict	Social identity theory	Small	Medium-large	Large-medium	Small
Perceived unfairness	Organizational justice theory	Small	Medium-large	Medium	Medium-small
Acculturation stress	Acculturation theory	Small	Medium	Large	Medium-small
Job environment changes	Job characteristics theory	Small	Small	Medium-large	Medium-small
Role conflict and ambiguity	Role conflict theory	Small	Small	Large-medium	Small
Prolonged uncertainty	Anxiety theory	Small	Small	Small-medium	Small or high

Table 3 Adapted ABCD Framework

Agility	Speed Precision	Speed of Change Timing of Change
Benchmarking	Imitation Global Standard	What Works What is Us
Convergence	Mixing Synergy-Creation	Level of Integration Best Practice
Dedication	Diligence Goal-Orientation	"Soft" Due Diligence Communication

Figure 1 Pathfinder Model (Ashkenas, *et al.*, 1998)

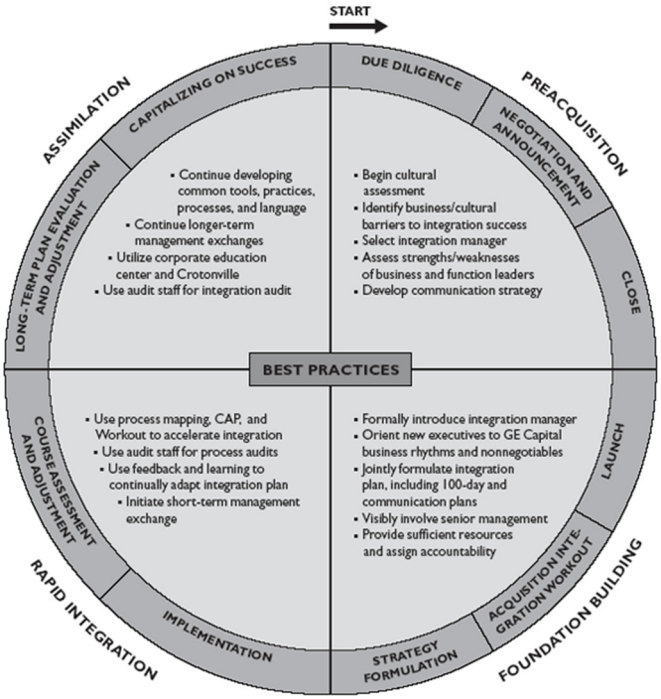


Figure 2 Level of Integration (Haspeslagh & Jemison, 1991)

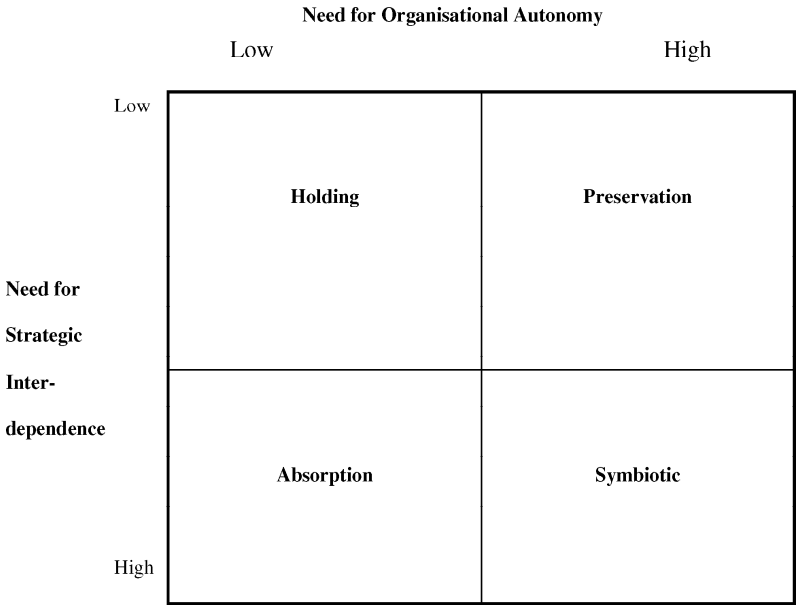


Figure 3 Porter's Diamond Model (Porter, 1990)

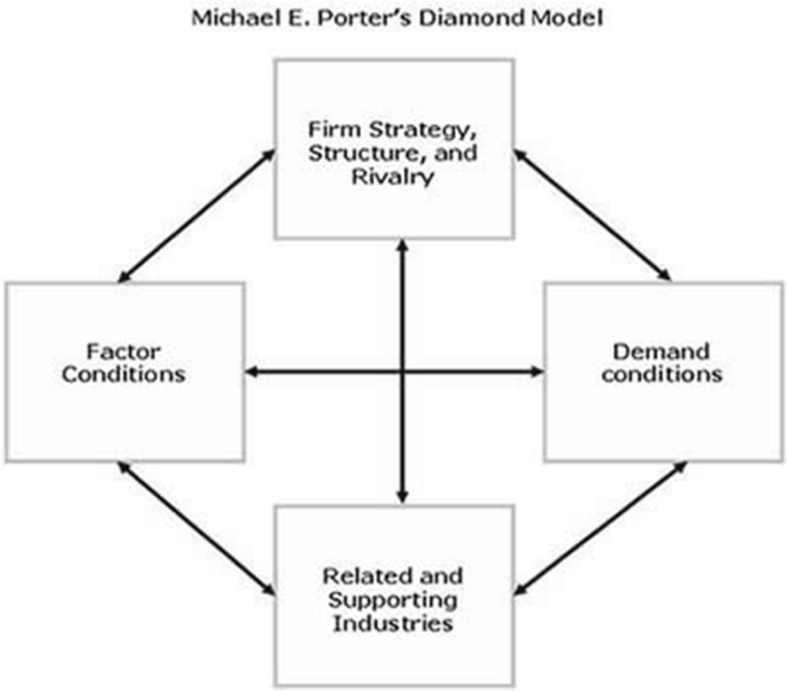
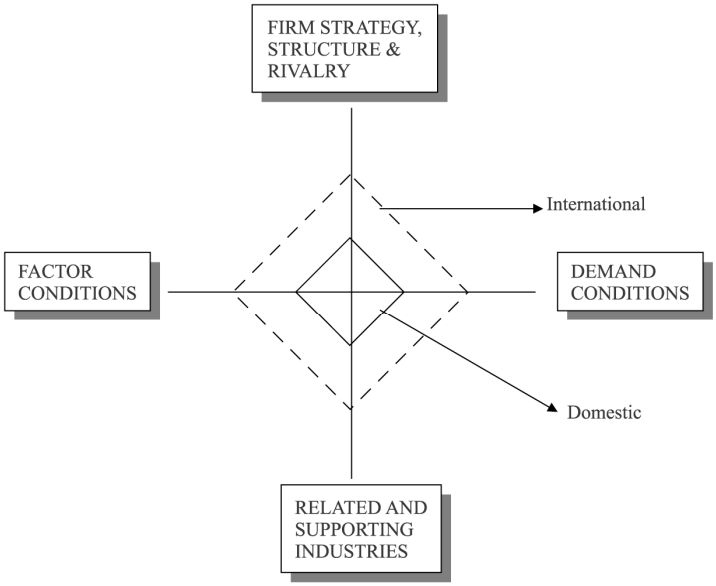


Figure 4 Moon, Rugman, and Verbeke's Double Diamond Model (Moon, *et al.*, 1995)



Source: Moon *et al*. (1998, p. 138). Modified by the author

Figure 5 Moon's ABCD Framework (Moon, 2012)

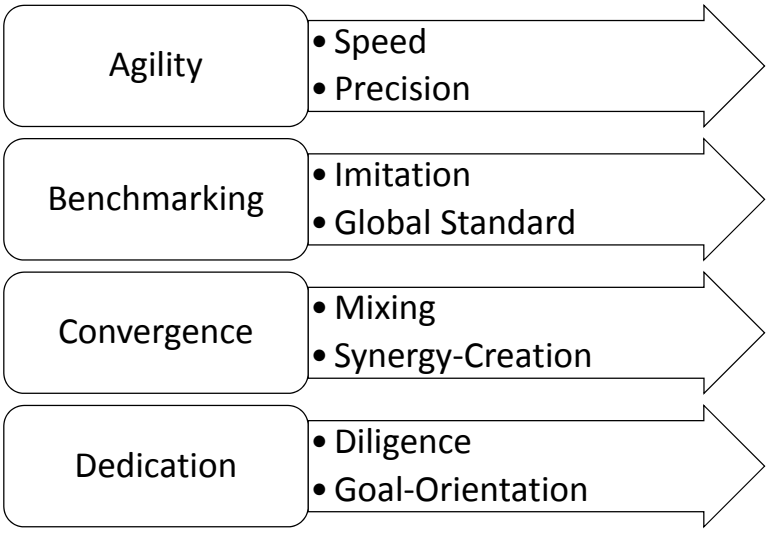


Figure 6 Adapted Diamond Model

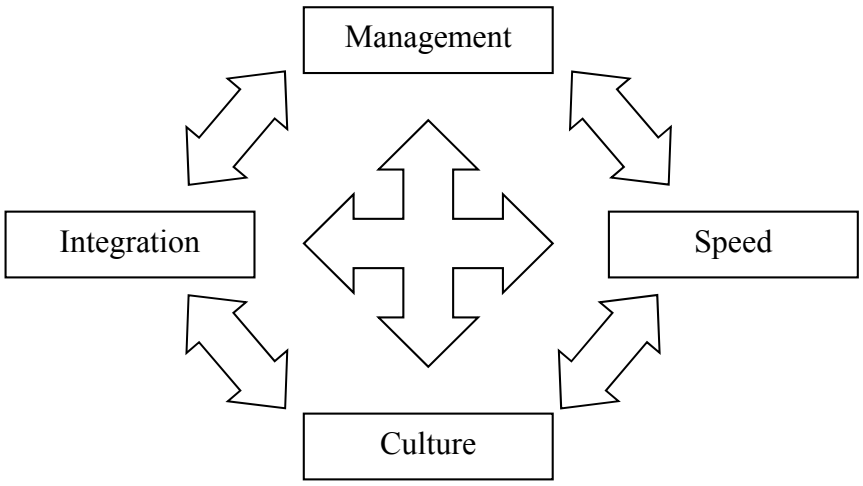
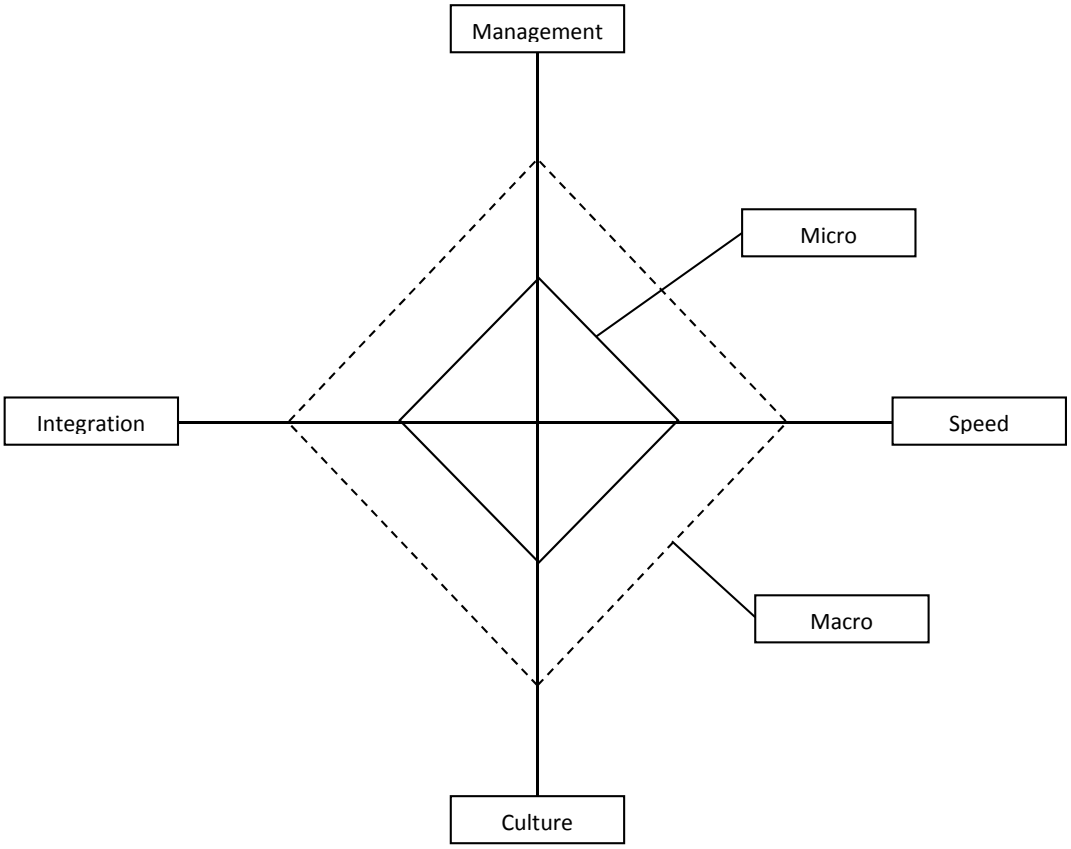


Figure 7 Adapted Double Diamond Model



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Abstract (in Korean)

오늘날 M&A는 계속 늘어나고 있다. 수많은 M&A에서의 실패에 그 원인에 대한 연구는 많이 이루어졌고 현재도 많은 연구가 진행되고 있다. 최근 추세는 회계, 수입, 이익률 등의 “hard factor”가 아닌 “soft factor”인 인적 요인들이 M&A들의 실패에 중요한 요소라고 정하고 있다. 현재까지 많은 연구가 진행되었지만 M&A에 성공에 중요하다고 하는 변수들은 끊임없이 제기돼 정리가 안돼있는 상황이다. 이 논문은 현재까지의 연구를 명확하고 이해하기 쉬운 포괄적인 뼈대로 현재까지 제기된 변수들을 정리하고 미래의 연구도 분류될 수 있는 프레임워크 (framework)를 제기한다. 이 뼈대는 마이클 포터 (Michael Porter)의 다이아몬드 모델 (Diamond Model)과 거기서 더 확장된 더블 다이아몬드 모델 (Double Diamond Model)을 개조하여 만들었다. 포터의 다이아몬드 모델의 네 개의 모서리에 들어가는 요소조건, 수요조건, 기업의 전략 구조와 경쟁과 지원과 관련산업을 통합, 속도, 경영, 문화로 바꿈으로 지금까지의 변수들을 이 네 개의 모서리에 이해하기 쉽고 상호간의 영향이 있는 조건들로 정리를 함으로 연구가 부족한 분야들이 들어나게 하여 미래의 연구가 필요한 요소들이나 조건들을 강조 한다. 이 논문은 또한 위의 두 framework와 문 (Moon)의 ABCD Framework를 이용하여 합병하는 기업에 순조롭고 효과적인 통합 전략을 만드는데 기억해야 하는 중요한 요소들을 강요하며 실천 가능한 해법을 찾을 수 있게 돕는다.

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