

THE IMPACT OF CENTRALIZATION OF THE INTEGRATION PROCESS ON THE EFFECTIVENESS OF CORPORATE ACQUISITIONS

Introduction

Despite the uncertain geopolitical situation in Central and Eastern Europe and the deteriorating macroeconomic environment, mergers and acquisitions (M&A) continue to be a popular growth strategy for companies. In Poland, the M&A market experienced further growth in 2022, with 341 transactions were concluded (328 transactions in 2021 and 229 in 2019) [Navigator Fordate, 2023]. Decisions to pursue a development strategy based on acquisitions are typically preceded by an assessment of potential risks and possible synergies. Previous research indicates that the overall effectiveness of acquisition processes is rarely low. According to studies, as many as 70% of transactions fail to meet their intended goals [Bennett et al., 2017]. Previous research shows that the post-trade phase, in which resources and processes are either integrated or transaction partners are left with full autonomy, is crucial. Bodner and Capron [2018] define post-mergers integration (PMI) as the process that unfolds following the closing of a transaction, reconfiguring the merging companies by repositioning, adding, or divesting resources, product lines, or entire businesses to achieve the expected benefits of the acquisition. If the companies involved in the transaction want to achieve greater efficiency through cost synergies they must choose between centralized and decentralized M&A, which has consequences for the PMI process. Although M&A is common in business practice and widely analyzed in the literature, little attention is paid to the issue of centralizing

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PMI. There is also a lack of analysis regarding the importance of centralizing to achieve the specified objectives of the transaction. Therefore, the presented research aims to address this identified knowledge gap.

At this point, it is important to explain how the decision regarding centralization affects the course and effectiveness of the entire transaction. Research to date shows that trust between participants and good communication are key factors in the success of integration [Stahl et al., 2013]. It is therefore important to determine whether a relationship existed between the companies before the transaction, whether they had cooperated with each other, or whether they had been strong competitors. It is also essential to address the question of how prior cooperation between the participants in the acquisition transaction influences the decision to centralize integration. The aim of the article is to identify the impact of the centralization process of integration on the evaluation of acquisition effectiveness.

The research sought to answer the following research questions:

RQ.1. How does the pre-acquisition cooperation between transaction participants affect the decision to centralize by setting up a joint integration team?

RQ.2. How does centralization affect the course of PMI?

RQ.3. How does centralization affect the evaluation of the effectiveness of the acquisition?

For the purposes of evaluating the effectiveness of the integration activities, the criterion of a qualitative assessment of the level of achievement of the assumed objectives, as made by the CEO, was adopted. This approach is a part of one of the three leading approaches to examine the effectiveness and efficiency of acquisition transactions. [Papadelis, Thanos, 2010]. The assessment of the effectiveness of acquisitions through personal evaluations of the managerial staff was used, among others, in research conducted by Angwin et al. [2014] and Papadakis [2010]. The presented results concern an examination of 56 acquisition transactions carried out on the Warsaw Stock Exchange and in the private market between 2016 and 2021.

1. Literature review

The PMI phase is crucial for the effectiveness of acquisitions [Angwin et al., 2014]. Post-transaction activities are so diverse in nature, depth, and pace that they have given rise to many PMI definitions [Graebner et al., 2017]. Bodner and Capron [2018] define post-merger integration as the process that evolves following the closing of a transaction to reconfigure the merging companies by redeploying, adding, or divesting assets, product lines, or entire businesses, in order to achieve the expected benefits of mergers. Improperly executed integration after an acquisition is often the cause of long-term failures, typically resulting in a loss of organizational value.

Already at the stage of planning for development through acquisitions, the aspect of managing the new organization should be considered, focusing on developing the concept of the target state and determining the optimal integration strategy, bearing in mind the specifics of the given transaction. Therefore, it is important to assess to what extent deep integration is necessary across all functional areas, and to what extent full autonomy of transaction partners is required after the acquisition. At the point of entering the transaction, it is also necessary to decide who should be entrusted with managing the integration process. It is widely believed that the role of managers is most important in the closing phase of the M&A process. Graebner et al. [2017] emphasized that current research provides limited knowledge about the involvement of entities other than the managers of the acquiring companies in the integration process. Teerikangas [2011] also highlights the lack of in-depth analyses regarding the cooperation between managerial staff from the acquiring and acquired company. This is a clear cognitive gap, because research shows that one of the key factors contributing to the success of the transaction is the swift creation of a management team from both merging companies, which will implement the strategy of the new organization within the post-merger structure. Research by Hay Group [2014] found that organizations appointing a new management team as early as the due diligence phase are more than twice as likely to achieve full integration within one year. When defining the roles of managers in acquisition processes, it is emphasized that they reduce ambiguities, implement actions to justify the acquisition decision [Vaara, Monin, 2010], undertake initiatives related to the integration of combined resources [Brueller et al., 2018], find ways to manage cultural conflicts that often accompany integration processes [Lakshman, 2011], drive post-acquisition change [Kavanagh, Ashkanasy, 2006], and seek to build trust [Graebner et al., 2010], while minimizing dissatisfaction and departures of key employees [Cho et al., 2014]. The assignment of specific roles to managers in the PMI process depends largely extent on the relationship between the merging companies and the nature of the acquisition (whether friendly or hostile). From the perspective of effective integration, a key task is to appoint an integration manager for a specified period, reporting directly to the board. However, in practice, responsibility for integration is often delegated to line managers who were not previously involved in creating the acquisition strategy. As a result, they tend to focus on the integration of their own departments or organizational units [Stankiewicz-Mróz, 2021].

For successful integration, it is important that the integration manager appoints a team, which should consist of representatives from both combined units who have experience in project management. The integration team should not be too large and its composition should remain constant [Lamont et al., 2017]. Success in M&A processes depends on the quality of the management team and their attitudes throughout the process. When planning to acquire a business, leadership skills should be audited as

early as possible. These processes are often accompanied by a phenomenon known as the “leadership vacuum”. Research identifies the following as critical success factors in acquisition processes: the right selection of management, the proper structure of the integration process, a detailed integration plan, strong leadership, and clear responsibility for the integration’s progression [Bertrand, Capron, 2015]. Centralization may affect the pace of integration activities and the depth of changes introduced within the merging companies. The consequences of post-trade integration choices are often the subject of PMI surveys, particularly in relation to acquisition effectiveness. Papadelis and Thanos [2010] identified three key empirical approaches to assessing the effectiveness and efficiency of acquisitions: assessments based on accounting measures, stock market response studies (both short- and long-term stock market performance), and personal evaluations by management regarding the effective achievement of the original objectives set by the acquisition. Financial results are typically measured using return on assets (ROA), accounting for changes before and after the acquisition [Barkema, Schijven, 2008], stock returns for public acquirers through event studies or changes in performance [Bertrand, Capron, 2015]. When financial data is unavailable or difficult to obtain, which is often the case with data primarily related to financial goals, evaluations are made through surveys. Comparison of alternative measures have shown that accounting-based measures are positively correlated with managers’ subjective assessments. The evaluation of acquisition effectiveness through personal assessments of the managerial staff has been employed by Angwin et al. [2014] and Papadakis [2010].

2. Methodology

The presented research is a part of a broader research on PMI strategies. The results concern 56 acquisition transactions, deliberately selected based on the availability of respondents. The research used the interview method, using both personal face-to-face (F2F) questionnaire interviews, and traditional telephone interviews. Of the 56 interviews conducted, 38 were face-to-face, and 18 were conducted via telephone.

The survey respondents included presidents/vice presidents (14), CEOs (21), and managing directors (21). Typically, PMI research adopts one of three perspectives for analysis: the target entity, the acquiring company, or the newly merged organization. To construct the research sample, a dedicated database from Euromoney Institutional Investor Company (EMIS) was purchased. The database includes all transactions that took place on the Warsaw Stock Exchange between 2013 and 2019. Difficulties in conducting the research resulted in only 18 transactions being included in this group. Therefore, the sample was extended to include transactions carried out in the private market. In this group, 38 companies that were involved in acquisition transactions

as the acquirers were included. The sample selection was deliberate, based on the availability of respondents. The research methodology assumed that the study would be conducted at least three years after the transaction's closing date. This time frame has also been used in other post-trade integration studies [Bingham et al., 2015].

Finally, the analyzed sample, which included companies listed on the WSE and participating in acquisition transactions on the private market, contains 56 transactions. The selection of the sample was non-probabilistic. In the sample, 20 transactions were made through the purchase of shares, 28 through the purchase of companies. Eight transactions were carried out in the form of privatization. All the examined transactions took place within the industry or within the sector, so they are an example of horizontal concentration. This type of concentration reduces the business risk associated with undertaking activities different from those previously conducted by the audited companies. The analyzed group is dominated by acquisition transactions carried out between mature companies operating on the market for over 15 years. The structure of the sample is presented in Table 1.

Table 1. Structure of the sample

Characteristics of the examined transactions	Participants in the transaction	
	Acquiring company (N=56)	Acquired company (N=56)
Business profile:		
■ industrial goods and services	28	28
■ agri-food sector,	9	9
■ other	15	15
Employment volume before the acquisition:		
■ 50–249 employees,	3	38
■ 250–500 employees,	37	14
■ over 500 employees	12	-
Form of the enterprise's ownership:		
■ private enterprise, domestic enterprise,	478	43
■ multinational enterprise, state-owned enterprise	-	1
Period of operation on the market before acquisition:		
■ up to 5 years,	3	1
■ 5–10 years,	9	4
■ 10–15 years,	12	7
■ over 15 years	28	30

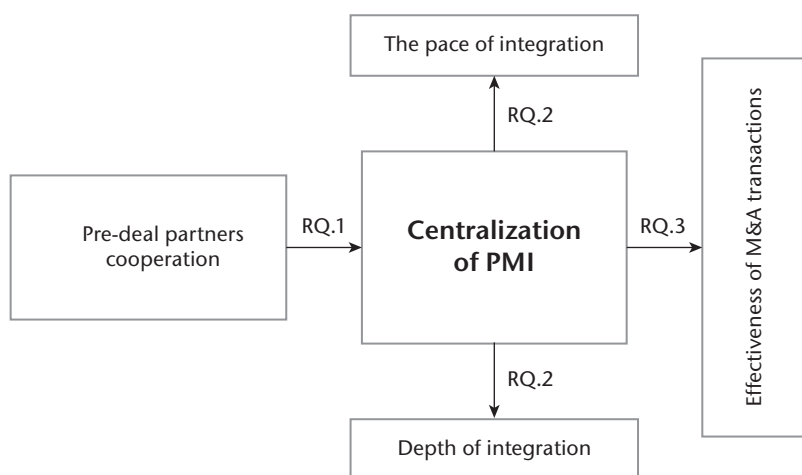
Source: own study.

All the analyzed acquisitions pertained to the industry and constitute an example of horizontal concentration. In this case, we are dealing with transactions between companies representing the same industry and producing similar products. To analyze the results, the following measures of descriptive statistics were used: arithmetic mean (M), median (Me), interquartile range (IQR), and Spearman's rank correlation coefficient (R).

3. Research model

The aim of the study was to identify the relationship between the centralization of the integration process and its progression, as well as to determine how cooperation between partners before the transaction affects the decision about centralization. The research was also aimed to answer the question of how centralization influences the assessment of acquisition effectiveness. In analyzing the course of integration, two factors were identified: the pace of integration activities and the depth of integration.

Figure 1. Research model



Source: own study.

4. Results

The main examined issue was to identify the entities responsible for and involved in the implementation of integration. Research by Chatterjee [2009] showed that companies that appointed a new management team during the due diligence stage were more than twice as likely to achieve full integration within one year. The present research has shown that giving priority to integration activities is associated with the appointment of individuals, who will be responsible for conducting integration. In 10 of the examined cases, the integration was centralized and carried out by a specially appointed team representing employees from both transaction partner companies. In the remaining 46 cases, the integration was decentralized, usually managed by lower-level managers (19 transactions), and less frequently by CEOs (11 cases). In 16 transactions, an integration team was appointed within the acquiring company.

Consequently, from a three-year, it was emphasized that the integration was often carried out intuitively, often using the trial-and-error approach. The question, “Were meetings organized to examine the progress of integration, and with what frequency?” was answered in an affirmative way in 26 cases, indicating that the meetings were held at intervals of between two weeks and one month. Centralization took place more frequently when the transaction was executed on the WSE (6 cases) than on the private market (4 cases). The ownership form of the acquiring enterprise was also important, as centralization of integration was much more common in international companies. This practice was identified in 5 out of 6 analyzed transactions, where the acquirer was an international company.

The research highlighted the importance of pre-existing cooperation between partners before the transaction for facilitating centralized post-trade integration. According to Stahl et al. [2013], it can be assumed that inter-organizational relationships between companies, in the form of an alliance, before the transaction, was present in 9 analyzed cases, and in 6 of these, centralized post-trade integration occurred. In contrast, the remaining 47 surveyed companies had no prior cooperation, and in this group, centralization of the integration process took place in only 4 transactions.

Table 2. Pre-acquisition cooperation and centralization of the PMI process

Form of cooperation before the transaction	Centralization of integration activities	
	Yes [10]	No [46]
Cooperation in the form of an alliance [N=9]	6	3
Non-cooperation [N=47]	4	43

Source: own study.

The obtained results lead to the conclusion that pre-transaction cooperation experience between partners influences the decision to centralize the integration process by creating a joint team led by an integration manager. Subsequently, efforts were made to determine how centralization affected the course of post-merger integration (PMI).

The research concept assumed that the process would be described by two parameters: the pace of implemented activities and the depth of the introduced changes. It has been assumed by Cording et al. [2008] that the speed of integration is defined as the time from the transaction's closing to the completion of the integration process. The research assumes that integration activities can be implemented at a fast pace (with changes visible after 3 months and continuing over a period of up to 12 months), a moderate pace (carried out over a period of up to 24 months), or slow pace (planned for 36 months and more). The second parameter was the depth of changes introduced after the acquisition. Three levels were adopted: high (indicating full control over

the acquired company), moderate (partial integration), and low (autonomy of the transaction partners). The results illustrating the relationship between pre-acquisition cooperation and the course of integration are presented in Table 3.

Table 3. Pre-acquisition cooperation and post-merger integration

Declared cooperation	Pace of integration activities		
	High [9]	Moderate [29]	Low [18]
Cooperation in the form of an alliance [N=9]	6	3	-
Non-cooperation [N=47]	3	26	18
	Depth of PMI		
	High [12]	Moderate [27]	Low [17]
Cooperation in the form of an alliance [N=9]	6	3	-
Non-cooperation [N=47]	6	24	17

Source: own study.

In each of the analyzed transactions where the centralization of PMI took place, integration activities were carried out quickly (6 cases) or at a moderate pace (3 cases). In none of these transactions was the integration process extended to a period of 36 months or more, nor was full autonomy was left to the acquired company in any case. In the remaining group of transactions, integration was typically carried out at a moderate pace (26 cases) or the pace of changes was slow (18 cases). Centralization also resulted in a greater depth of changes. In half of the surveyed companies where deep integration occurred, integration activities were centralized. The survey also asked respondents to assess the importance of cooperation between partners carried out before the transaction for the course of integration activities on the five-point Likert scale. The arithmetic mean of the indications for this factor was 3.5. The median for this variable is 3, indicating that 50% of respondents consider cooperation a moderately strong factor influencing the course of integration. Spearman's correlation coefficient (R) reached 0.61. The results suggest that the centralization of integration through the establishment of a joint team significantly impacts the course of integration. This is evident in both the pace of integration activities and the depth of integrated resources and processes. When integration was managed by a specially appointed team, it proceeded quickly (6 cases) or at a moderate pace (4 cases). In the remaining 46 cases, the pace of integration was assessed as high in only 3 transactions, moderate in 26, and low in 17. A similar pattern is visible in the second factor characterizing the course of integration, i.e., the depth of changes. When the transaction was centralized, the depth of changes was assessed as high in 6 cases, and moderate in 4. In the remaining surveyed companies (17 cases), the scope of integration was assessed as low, meaning that a significant degree of autonomy was left to the transaction partners (Table 4).

Table 4. Actors involved in carrying out organizational integration versus the course of PMI

Actors involved in integration	Pace of integration			Depth of integration		
	H	M	L	H	M	L
Team appointed in the acquiring company [N=16]	1	8	7	2	7	7
Team consisting of the acquiring and acquired company [N=10]	6	4	-	6	4	-
CEOs [N=11]	2	6	3	2	6	3
Lower-level managers [N=19]	-	12	7	2	10	7
Total	9	30	17	12	27	17

H – High; M–Moderate; L–Low

Source: own study.

The regularities found are also confirmed by the measures of descriptive statistics used to compile the results (Table 5).

Table 5. Assessment of the impact of centralization of the integration process on selected integration factors

Specification	Assessment of the impact of centralization on selected elements of the integration characteristics			
	Mean	Median	IQR	R – Spearman
Pace	4.2	4	1	0.56
Depth	4.0	4	1	0.52

Source: own study.

The last research question concerned the assessment of the impact of integration centralization on the effectiveness of acquisition transactions. The research adopted the concept of qualitative assessment of the effectiveness of acquisition transactions based on the evaluation of the managerial staff. This concept is, alongside approaches based on accounting measures and stock exchange reaction studies (assessment short- and long-term stock market performance), the most commonly used approach to study the effectiveness of M&A [Angwin et al., 2014]. A comparison of alternative measures of acquisition effectiveness showed that accounting-based measures are positively correlated with managers' subjective assessments [Papadakis, Thanos, 2010]. At the starting point of the study, the overall assessment of transaction effectiveness was identified by asking the question: "How do you assess the level of achievement of the objectives set for the analyzed transaction within 3 years from the date of the transaction?". The degree of achievement of goals was assessed by managers on a five-point Likert scale (where 0 means that the assumed goals of the transaction were not achieved, and 4 means that all assumed goals were achieved).

The average value of the variable in question was $M = 2.79$, which, according to the interpretation adopted in the research, indicates a moderate degree of achievement of the assumed goals. In 15 evaluated transactions, it was declared that all the assumed objectives were achieved. In 25 transactions, not all the assumed objectives were met, but the most important ones were achieved. In 16 cases, it was declared that some objectives were achieved, but these were not the most important ones. In no case was it found that the acquisition objectives were completely achieved. The relationship between the nature of the integration and the assessment of effectiveness in the transaction is presented in Table 6.

Table 6. Evaluation of the effectiveness of acquisition and centralization of the integration process

Declared level of transaction objectives achieved	Integration characteristics	
	Centralized	Decentralized
All the assumed goals have been achieved [N=15]	8	7
It was not possible to achieve all the assumed objectives, but the most important strategic objectives were achieved [N=25]	2	23
Some goals were achieved – less important [N=16]	-	16
Total	10	46

Source: own study.

Research has shown that a key factor influencing the course of integration and having a positive impact on the assessment of transaction effectiveness) is the centralization of the process. In the group of 15 transactions, in which it was declared that all objectives were achieved, in 8 cases the integration was centralized. The indicated relationships confirm the R-Spearman rank correlation measures. The correlation analysis between the assessment of the effectiveness of the executed transaction and the integration model shows that: if the integration process is centralized, the assessment of the effectiveness of the transaction is higher. The obtained result ($R = 0.68$) indicates a strong relationship. The centralization took place in the case of analyzed transactions, in which the level of satisfaction with the achieved goals was assessed as very high or high (80% of the cases studied). In comparison, in transactions in which the integration was decentralized, the level of fulfilment of all targets was achieved in only 15% of the transactions studied. The research also considered other factors that could potentially affect the effectiveness of acquisitions, such as the size of the companies, their organizational structures, economic health or organizational culture. The analysis showed that there is a low correlation between the integration course and the size of the companies involved in the transaction ($R = 0.30$), the similarity of their structure (0.28) or organizational culture ($R = 0.20$). However, these factors were not analyzed in detail in this paper.

The management of the integration process should be treated as a “separate business function” and the supervision of this process should be entrusted to experienced managers [Lamont et al., 2019].

Conclusion

In the case of integration, the question needs to be asked: how should PMI be conducted to achieve the highest possible effectiveness? What should be integrated, how quickly and how deeply should resources or processes be connected? Should integration activities be carried out separately in each company or done jointly? Studies have shown that centralization of integration positively affects the evaluation of acquisition effectiveness. The presented research has shown that centralization also has a positive effect on the pace of integration activities. But this raises the question of whether a high rate of integration is always desirable. The results of the research conducted so far do not allow for a clear position on the optimal pace of integration. Cording et al. [2008] point out that the impact of speed of integration on transaction success is positive. The results of the Bijlsma-Frankem [2008] studies indicated a negative effect, and the studies of Bauer and Matzler [2013] showed that this parameter has no remarkable significance. Similar dilemmas accompany decisions regarding the depth of changes, leading to the integration of resources or processes of companies participating in the transaction after the acquisition. It should be remembered that a high level of integration can result in many disruptions in the functioning of the organization. As noted by Slinger and Hennart [2008], the assumed high level of integration, if not properly managed, often leads to the failure of the entire acquisition process. Therefore, the key issue remains PMI management and the competence of the management in the field of M&A. The presented research was carried out on a sample of 56 transactions. The selection for the sample was non-probabilistic, and therefore the obtained results do not constitute a basis for generalizing the conclusions. It should be added that the specific nature of the Polish capital market and the sectors researched constitutes additional limitations for the universal applicability of the results obtained. Therefore, it would be worth extending the research to transactions carried out in Poland also in other sectors, and to examine the course of integration for transactions carried out on the capital markets of other countries from Central and Eastern Europe. There is a clear lack of research on how managers' human and relational capital influences post-acquisition reconfiguration, PMI choices, and performance. An important aspect worth examining is the management of PMI in the social area to counteract such problems accompanying M&A, such as the deterioration of social relations in the newly created entity and, consequently, in the organization. In the context of the results obtained describing the impact of centralization on the course

of integration and the effectiveness of transactions, the following recommendations can be formulated for companies considering development by M&A:

1. As centralization can enhance both the effectiveness of post-transaction integration and the overall acquisition process, it is important to consider, even at the planning stage, carrying out the integration with a team consisting of representatives from both the acquiring and the acquired company.
2. Centralization of integration should be recommended primarily in situations where the participants of the acquisition have cooperated prior to the transaction, e.g. in the form of a strategic alliance.
3. Centralization can be recommended for companies that are interested in fast and deep post-transaction integration.

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THE IMPACT OF CENTRALIZATION OF INTEGRATION PROCESS ON THE EFFECTIVENESS OF CORPORATE ACQUISITIONS

Abstract

Centralization of the integration process involves creating a joint team, including representatives from both companies involved in the acquisition transaction. The purpose of this article is to identify the impact of integration centralization on the evaluation of the effectiveness of corporate acquisitions. Attention is also paid to how centralization affects the course of integration and whether prior relationships between transaction participants influence the decision to centralize the integration process. The paper presents the results of a survey of 56 acquisition transactions completed on the Warsaw Stock Exchange (WSE), and on the non-public market. The research was conducted using a structured interview technique with the CEOs of the acquiring companies. The research showed that centralization of the integration process occurs rarely, but when it does, it positively influences the achievement of set goals and the evaluation of the effectiveness of the entire acquisition transaction. Cooperation between acquisition participants in the form of strategic alliances, established before the transaction, positively influences the decision to centralize the integration process. The integration carried out by the joint team was faster, and the depth of pooling of resources and processes of the companies involved in the acquisition transaction was greater.

KEYWORDS: COMPANY ACQUISITION, POST-MERGER INTEGRATION, CENTRALIZATION OF INTEGRATION, EFFECTIVENESS OF ACQUISITIONS, POLISH CAPITAL MARKET

JEL CLASSIFICATION CODE: M10

WPŁYW CENTRALIZACJI PROCESU INTEGRACJI NA SKUTECZNOŚĆ PRZEJĘĆ PRZEDSIĘBIORSTW

Streszczenie

Centralizacja procesu integracji polega na utworzeniu wspólnego zespołu, w skład którego wchodzi przedstawiciele obu spółek biorących udział w transakcji przejęcia. Celem artykułu jest identyfikacja wpływu centralizacji integracji na ocenę efektywności przejęć przedsiębiorstw. Zwrócono także uwagę na to, jak centralizacja wpływa na przebieg integracji oraz czy wcześniejsze relacje pomiędzy uczestnikami transakcji wpływają na decyzję o centralizacji procesu integracji. W artykule przedstawiono wyniki badania 56 transakcji akwizycyjnych zrealizowanych na Giełdzie Papierów Wartościowych w Warszawie (GPW) oraz na rynku niepublicznym. Badanie przeprowadzono techniką ustrukturyzowanego wywiadu z prezesami spółek przejmujących. Badania wykazały, że centralizacja procesu integracji zdarza się rzadko, jeżeli jednak nastąpi, fakt ten pozytywnie wpływa na realizację postawionych celów i ocenę skuteczności całej transakcji przejęcia. Współpraca uczestników przejęcia w formie aliansów strategicznych, która miała miejsce jeszcze przed zawarciem transakcji, pozytywnie wpływa na decyzję o centralizacji procesu integracji. Integracja przeprowadzona przez wspólny zespół była szybsza, a głębokość łączenia zasobów i procesów spółek (zaangażowanych w transakcję przejęcia) była większa.

**SŁOWA KLUCZOWE: PRZEJĘCIA PRZEDSIĘBIORSTW, INTEGRACJA
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