

Telecom Italia: Merging Five Companies into One

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Introduction

A very important question in strategy has been: what influences the performance of mergers and acquisitions (M&As)? Different answers have been offered by scholars and practitioners from various research perspectives: e.g. from the effectiveness of the strategic choice,¹⁻³ to the strategic fit between the acquiring and acquired company.⁴⁻⁷ More recently the management of the acquisition process has been emphasized as the key factor for successful mergers and acquisitions.⁸ Starting from Haspeslagh and Jemison's view, which emphasizes the key role of the integration process between the acquiring and acquired companies, and drawings from the Kitching⁹ and Shrivastava¹⁰ argument that the obtention of expected results from M&As depends on the success of the post-acquisition restructuring and integration process, I will argue that each merger/acquisition requires a company restructuring upon completion of the transaction and that the nature of this restructuring will affect company performance. To discuss this proposition I describe the merger of five companies in the Italian telecommunications industry and the restructuring process which took place after the merger.

The article is structured as follows. The first section presents insights from the M&As literature into an analytic framework for conceptualizing the role of the integration process in corporate mergers and acquisitions. The next section describes the characteristics of the Italian telecommunications industry, the profile of the merging companies and the merger patterns. The third section describes the experience of the Telecom project. This section integrates the specific concepts and findings of the field research with most relevant theoretical issues on post-acquisition inte-

This article reports the results of an in-depth study of the merger integration process involving five operating companies in the Italian telecommunications industry. The article has important implications for research and practice. Specifically, it suggests that mergers and acquisitions results are related to the quality of the post-acquisition restructuring and integration process. The article also describes how the Italian Telecom merger was carried out and shows that integration and business redesign took place simultaneously. © 1998 Elsevier Science Ltd. All rights reserved

gration. The fourth section provides an in-depth analysis of integration and reorganization process which took place in the Network Division. Apart from being the most critical of the new Telecom divisions that were created after the merger, this activity overlapped competencies and resources which were present in all merging companies and consequently required a major restructuring. Moreover, as this activity had several operational linkages with the other divisions, its redesign inevitably affected all other areas of the Telecom. The final section then assesses the contribution of the Telecom experience for future research and for the management of post-acquisition integration.



The Importance of the Integration Process as a Key to Success in Corporate Mergers and Acquisitions

Most of the recent research contributions on M&As¹¹ go beyond the analysis of the early studies, which centred on financial, strategic and organizational aspects. The new trend of study may be said to adopt a "management perspective".¹² Within this trend, the research focus has shifted substantially from the multiple-faceted interests of previous research tracks to the analysis of post-acquisition integration.

In research with a financial perspective, the central issue was the assessment of the efficiency impact of the M&As either on: i. specific industries, ii. the overall economy, or iii. on the value creation for shareholders of acquired/acquiring firms. In research with a strategic perspective, the interest was either on the analysis of M&As as strategic options for a given firm or on the managerial procedure design that could improve the performance of M&As. Finally, research with an organizational perspective tended to focus on the impact of M&As on individuals within organizations.

The crucial aspect which attracted attention from both the organizational and the strategic perspectives and which is the central issue in the management perspective, is the management of the M&A process, from pre-acquisition (when the advisability of the deal is assessed) to post-acquisition (when the integration process takes place). In particular, within the framework of post-acquisition, much emphasis has been placed on the integration of the merging companies. The integration of the M&A partners is ultimately considered as the most important aspect of the whole acquisition process.^{8,10,13-19}

It is a simple fact that most acquisitions go awry. Even if an acquisition opportunity is sound, the expected synergies have to be realised during post-acquisition integration. Both organizational and strategic research has demonstrated that an unsuccessful integration can turn the M&A deal into a failure. However, except for Haspeslagh and Jemison's work,⁸ organizational and strategic literature has not taken into account the interaction of factors having an impact on the integration success, and has concentrated, instead, only on single aspects of company integration after the acquisition:

- human resources management;^{4,17,20,21}
- management turnover;^{22,23}
- corporate culture;^{10,16,24}
- managerial patterns.^{9,13}

In my view, these research trends do not fully treat the aspects related to acquisition management. I believe it is necessary to go beyond a contingency approach, which acknowledges that some M&As require a mini-

mum level of integration, whilst others imply transformations of company functions across the board.^{8,25} For large-scale or very complex acquisitions, I believe it is necessary to implement integration by thoroughly re-examining the organizational structure and key-processes of the company after the acquisition. If it is the integration process of merging companies that creates real value in M&As, it is important, in my view, not to miss the opportunity thoroughly to redesign organizational structures and management processes,²⁶ in order to achieve this goal. Established management procedures should not be a bind either for the acquiring or for the acquired company.

The Merger in the Italian Telecom Industry

Few industry sectors have experienced such rapid and profound changes as the telecommunications industry. Changes in regulations, both at an international and national level, have transformed the competitive arena and imposed adjustments on companies both in their structure and in their behaviour.

In addition, powerful technological developments have imposed readjustments in the competitive arena and have forced a re-examination of operating procedures both by industry players and by their clients. As a result of these changes, many companies have had thoroughly to adapt their competitive behaviour and their organizational structure.²⁷ The impact of these transformations on the larger public of private users has been equally striking; as it has had significant and sudden impact on well-established attitudes and habits.

Until recently, the Italian telecommunications industry was generally looked at as a sort of "telephone stew", owing to the fact that five operating companies, all with different legal patterns, were running the show. On the one hand, there were companies operating under a licence (SIP, Italcable, Telespazio and Sirm);²⁸ on the other, there was ASST operating within the public administration.²⁹ The complicated institutional structure and the ambiguous roles of the operators in the sector added a further element of uncertainty. The first adjustment in the institutional structure of this sector occurred in 1992 through the creation of Iritel which took over ASST and a part of the Post and Telecommunication Administration (sea communication services). In 1994, the creation of Telecom Italia (i.e. the implementation of the national "Single Carrier" project) completed the rearrangement of this sector, simultaneously reinforcing the need for a deep reorganization of the network and services.

The reorganization of Telecom Italia is particularly interesting since it associates the need for corporate transformation, resulting from changes in the sector,

with specific needs resulting from the merger. From this point of view, the Telecom case offers the opportunity to provide an original contribution on the importance of managing the integration process as a success factor in corporate acquisitions or mergers.

In this study, the basic assumption is that the integration of activities, which are clearly differentiated as a function of their specific mission and their specific resources, not only requires a significant integration effort, but also a thorough re-examination of the organization, according to new guidelines and management methods in relation to those already well-established in the companies participating in the merger.

The information gathered aims to describe the basic steps in the reorganization of the Telecom activity and to analyse the contribution of post-merger integration to the success of the operation.

The Competitive Framework of the Telecom Project

The creation of Telecom Italia took place within a context of increasing deregulation and international competition, and followed upon the European Union decision to liberalize what is left of the telecommunications monopoly in most countries, that is to say vocal telephony. In Italy, the structure of the telecommunications system began to change between late 1992 and early 1993³⁰ following a long discussion that involved the unions, the political parties and public institutions.

The creation of a single national carrier resulted from a take-over of Italcable SpA (intercontinental services), Iritel SpA (sections of long-distance trunk and international-continental connections), SIRM—Società Italiana Radio Marittima SpA (sea communications) and Telespazio SpA (satellite connections) by SIP SpA, a company involved in setting up and operating telecommunications infrastructures as well as managing telecommunications services.³¹

This merger was finalized on August 128, 1944 and took effect from January 1st of the same year, on the basis of company financial statements dated 31 December 1993. It led to a net increase of 874,436 billion liras in the capital of the new company.

A description of both the merger implementation procedures and the nature³² of the companies involved provides not only a number of useful explanations about the operation, but it also gives us the first critical issue for consideration. No matter what the legal form of the deal may have been,³³ the operation was actually beginning to look like an acquisition of activities by the former SIP SpA. The other companies were clearly disproportionate if compared to SIP (see Table 1) because of their much smaller size and the structural characteristics of their markets. Appendix A shows the charts of the organizational structures of the five companies before the merger as

TABLE 1. Main data referring to 1993 and concerning companies involved in Telecom SpA creation

	Gross turnover in billion liras	Staff
SIP	23,412	87,960
Italcable	814.8	22,900
SIRM	40.6	199
Iritel	2,457	9,141
Telespazio	389.7	848

well as the Telecom organizational structure designed after the merger.

In this context, the reason for creating Telecom was clearly to overcome the fragmentation of players in the Italian telecommunications industry, as well as to achieve the following goals:

- the strengthening of national leadership in the telecommunications industry,
- the acquisition of a prominent role in the international market,
- a strengthening of the economic/financial position.

The Starting of the Telecom Project

The research literature shows that the choice of the most appropriate integration procedures is highly influenced by such aspects as quality (many authors consider excellence as a key aim of the acquisition)^{8,34} and size of acquired companies.^{5,9,10,34-39} In the case of SIP, its size in comparison with the other companies involved (Table 1), and its competitive capability in the telecommunications system (size is a critical factor in this sector) would suggest this company had to play the lead role in the management of the Telecom integration process. Taking into account the characteristics of the telecommunications business and the companies involved, it seemed to make sense to integrate their activities within the SIP structure. With reference to the three integration methods explained by Haspeslagh and Jemison,^{8,40} this might be called an "absorption" approach to integration. This refers to a type of acquisition involving the full consolidation of operations, structures and cultures of the merging organizations over time. The method involves a progressive recognition and adoption of the management practices and objectives of the acquiring company by the acquired companies. The rationale for such an integration approach is the predominance of the acquiring company in terms of size, sales turnover and/or managerial culture. Thus, the purchaser takes control of the most valuable assets

and procedures of the acquired company with a view to the further development and strengthening of its own organizational structure. In the case of the merger of companies in the Italian telecommunications industry, the long planning process which preceded the merger and the ensuing restructuring that had to reduce the overlaps among merging companies, with a view to the rapid improvement of efficiency even at the cost of losing the skills and specialities of individual companies,⁴¹ ultimately seemed to pave the way for the adoption of the managerial style and organizational choices of the main company,⁴² i.e. SIP.

However since the outset the Telecom operation took place in the knowledge that it would be a complex project and that it would involve the simultaneous merger and redesign of activities. For this reason, STET,⁴³ the project leader, made it immediately clear that the deal should be carried out in two, simultaneous steps: a transition phase to allow the merger of five different companies into Telecom and a redesign and restructuring phase to move from the old industry structure to a new one. These are the key characteristics of the Telecom operation: simultaneous integration and redesign. The Telecom project started a process of change at the strategic level which would assure the companies involved of their continuation and which would bring into play an organizational transformation directed towards:

- the definition of the Single Carrier's strategies,
- change in the structure and roles of the organizing actors,
- re-engineering of processes and redefinition of mechanisms and operating systems,
- enhancement of abilities and professional skills,
- definition of aspects related to staff management and cultural integration of the five companies.

The clear identification of a "project leader" in charge of the integration process is considered a key success factor.^{8,13} Similarly, a collective top management structure with representatives from all merging companies is unlikely to obtain good results, especially in matters relating to the new organizational structure.⁸ In the case of the Italian Telecom merger, the key role was played by the project leader STET acting as a third party in relation to the partners involved in the merger. This no doubt also prevented smaller companies from pretending to be on a par with SIP, which would have been disastrous, given the size differences of the companies involved in the Telecom project. The top management team which was given post-acquisition responsibility for "leading the herd" was structured as follows:⁹

- STET managing director
- Strategic committee
- Telecom project manager

- Operating committee
- Telecom project team
- Project groups (assisted by four consulting firms and organization experts belonging to the five companies).

Setting up a dedicated team (viz. a group concentrating on specific tasks and reporting progress to a coordinating committee made up, primarily, of top managers) is a choice that has been successfully made in other merger cases as well.^{8,44}

The resources and capabilities used at different moments and in numerous ways in the Telecom project were considerable. In addition to the four consulting firms, about 100 managers from the five companies were interviewed at the start of the project; four project groups involved the efforts of 120 experts from the five companies full time for six months; the same project groups turned to a number of people in the five companies who had specific responsibility for planning activities.

Roles and responsibilities within the Telecom project were perfectly clear and were not negatively affected by such a large involvement of people. On the contrary this broad consultation succeeded in creating the right integration atmosphere in the companies involved, a factor pointed out by the research literature as important.^{8,45}

Redesign Guidelines and New Organizing Solutions for the Single Carrier Project

The simultaneous integration of five national telecommunications companies and the design of a new organizational structure required the definition of new guiding principles worked out by STET, as project leader.

The patterns of integration suggested by research show three possible approaches:^{8,46} in the first, the acquiring company "supplies" the acquired company/s with its own strategic capabilities; in the second, such capabilities are "pooled", thus allowing both companies to take advantage of them; and in the third, such capabilities are "transferred" by the acquiring company to the other or others, by placing staff and resources at their disposal, in order to establish a steady link.

The Telecom project took another path, directing its efforts towards the "creation" of new strategic capabilities. The inspiring principles of the Telecom merger and reorganization can be summed up as follows:

- to give the customer a greater added value,
- to optimize shared resources,
- to give strong independence to local business units,
- to emphasize business-specific skills and cultures,
- to structure the activity by processes and not by functions.

The first principle—which underlines the effort to adjust the structure to market needs—also expresses the need for directing transformations, arising from the abandoning of a monopoly situation and an increasing market liberalization, towards a business culture. STET's aim is to ensure that the new organization checks its performance against established parameters designed to give the customer greater value. These parameters concern the following aspects of the business

- products/services,
- introduction of technological innovation into new services,
- feedback times,
- speed of operating processes.

It was, therefore, necessary to structure the organization into divisions, setting up business units based on market/customer combinations, and stressing responsibility at the local level in different competitive sectors. In line with this, resources were redefined and each business unit assigned the necessary organizational, technological and market incentives (in addition to general management support) in order to create a customer service orientation.

The business units which were identified were the following:

- a "Private clients" division, in charge of the residential clients and of the segment of "small businesses" involved in public telephony and access network. This unit concerns a market of 24 million clients who are managed through standardized marketing and selling policies;
- a "Business clients" division, in charge of all customer segments that are directly and personally managed (i.e. about 160,000 firms and other organizations whose telephone traffic exceeds a certain value figure);
- an "International services" division, in charge of all international services and the client segment made up of foreign multinational companies in Italy.

Along with these business units, there are two additional structures that operate transversally to support the business units, viz. a "Network" division and an "Internal service" division. In addition, as I indicated above (cf. note 7), the guidelines of Act No. 142-1992 identify several areas in the telecommunications sector that operate under deregulation; for the management of these areas, two divisions have been created: "Mobile services" and "Nuova Telespazio" (satellite connections). These business-division units are divided into two levels related to specific groups of clients; the first level is called "division" and the second "SBU".

The second guiding principle of the Telecom project was to optimize support resources shared among

the business units. Here a number of general management activities are involved, namely:

- technological choices, architectural design and integrated planning for all network sections,
- common services, such as procurement, real estate management, general services and the information system,
- staff activities that do not produce business specific products.

The corporate structure of the Single Carrier integrates and merges these activities by performing the following tasks:

- general and legal affairs
- administration
- staff and organization
- external relations
- internal auditing
- secretary to the statutory bodies
- strategic planning and control
- operational planning and control
- quality
- information technologies.

The third guiding principle was the creation of organizational routines capable of giving strong independence to local business units. The following initiatives were taken:

- each unit was supplied with "dedicated" structures and capabilities,
- operating constraints and existing relationships among different organizational units were reduced, by limiting the "exchange services" among them,
- the financial accounts of each local business unit and "transfer prices" between business units became more "transparent".

The fourth guiding principle concerned the need to preserve and develop, as far as possible, the established cultures of the dominant business (e.g. SIP) and the various managerial points of view which were frequently the basis for special skills that could not be lost. This principle corresponds to the need, identified in the research,^{10,37,47-52} to create a new culture, yet different from the result of those that produced it.

The fifth guiding principle of the Telecom project concerned the organization of the Single Carrier's activity. It was necessary to reconsider the management processes, going well beyond traditional management systems. The merging companies had functional organization patterns. The project required a novel approach to the business, consistent with Telecom's goals, i.e. to be market-oriented and to recover efficiency and effectiveness. Since it was clear that these goals had to be pursued "horizontally and transversally" by controlling processes at different organizational levels, and not at the level of single

management functions, the transformations at Telecom implied:

- the integration of roles through the control of transversal processes in relation to the hierarchical coordination,
- the control of the final output of the process in relation to the tasks,
- the creation of horizontal-transversal structures at the different organizational levels.

These guiding principles led to a new territorial organization of Telecom based on the operating needs of the different segments into which the national market had been divided. The new segmenting structure involved a certain number of regional (or multi-regional) controls which varied according to the operating needs and to which the branches or operating units refer.

The main features of the new organization were:

- special stress on the local business units and the new role of regional controls,
- the development of a specific territorial organization for the different business units, according to client needs,
- the pursuit of efficiency targets that were translated into a reduction in the number of network territorial units and into the creation of territorial poles for the activities of operating services, professional support and sales representation in the territory.

Integration and Reorganization of the Network Division

The integration carried out along with the Telecom project guidelines described above, required a good understanding of the business. Prior to main business processes design, it was necessary to understand which were the organizational resources, skills and strategic solutions able to guarantee a successful integration and consequently a successful acquisition.

At this level, the key issue was the ability of the "Telecom project team" and project groups to "rethink" division activities in the light of the processes involved, finding the best way to integrate the resources of all companies. It was necessary to focus on and evaluate resources in order to identify what should be retained in each company, what should be abolished, or what should be created starting from scratch. To fulfil this task a temporary organization was created. This temporary organization worked according to the following principles:

each group had to

- implement its organization,
- guarantee continuity and consistency between project and implementation,

- use the know-how acquired during the planning stage; furthermore,
- the temporary organization supported the groups without creating superstructures.

In the light of time constraints and the expert knowledge of specialists within the Project Group, it was decided to define new processes immediately, instead of carrying out a detailed survey of previous ones.

Although Boschetti and Baden-Fuller⁵³ refer to a functional approach to integration, they nevertheless believe that the ability of single areas to implement their own procedures, making optimum use of corporate resources concerned with integration for strategic purposes, is essential for the success of the operation.

I now focus on the case of the Network Division to document how in the frame of the Telecom project the activity integration and re-design took place at the business unit level.

The Network Division controls the company core activity. It represents 60% of investments, 30% of human resources and 40% of Telecom costs. It is the business unit that technically supports divisions operating on the market, and it controls technological transformations (and indeed the very same transformations that characterized the telecommunications sector at the time the Telecom project was being implemented). For these reasons the Network Division may be considered as the core of Telecom activity, one of the competitive incentives for carriers in the telecommunications sector. This is also why it is particularly interesting to describe the transformation it went through.

A strong correlation between the various network processes encouraged STET, the integration project leader, to involve the Network Project Group in the redefinition of network processes assigned to the Market Divisions. It entrusted the group with the control of the technological and development strategy of the Telecom network infrastructure, as well as with the running of the long-distance national network. This was achieved by providing other company divisions and third carriers⁵⁴ with access and use of long-distance national network circuits.

Technological aspects were the first to be taken into account. Today the Telecom commuting and digital transmission network is no longer considered to be a group of exchanges, transmissions and cables, but now constitutes a platform of telecommunications. It connects with private-owned networks and creates a variety of new uses (for social, professional, entertaining purposes) which supplement traditional voice communications. Owing to technological transformations, the transmission network integrates the various means of communications (voice, text, image) with the media (private, public, mobile phone; communications processors, text and image reproducers).

Two factors led to a complete re-examination of the pre-merger organization and processes: 1) the needs for integration of the five companies comprising Telecom and 2) the rapid technological transformations characterizing the sector. As a consequence, the Network Division was assigned a new, strategic task within the Telecom organization. This involved the following objectives:

- cost reduction by developing technologies;
- expansion of the existing market (with one of the lowest average per capita telecommunications consumptions in Europe, the development potential of the Italian telecommunications network is remarkable);
- creation of new network platforms by managing more complex services, e.g.: 144 service (this is a question of moving from a network that carries a client who is given access to a distributed network that manages interconnections involving both the final user and service providers);
- reducing "time to market" (today it takes one year to launch a new complex service);
- supplying suitable services to the Market Divisions in terms of speed, maintenance availability and procurement management;
- setting up a new accounting system to separate all operations and functions related to the network (improved financial transparency is a basic condition for regulating this industry; it makes it possible, for instance, to know how much it costs to guarantee a universal service throughout the country).

With these objectives in mind, a processes plan was drawn up; this made it possible to highlight 5 macro processes and 67 basic processes (see Fig. 1). These processes were identified either by equipment/network elements or by logical process phases.

The integrated management of these processes within the Network Division avoids fragmentation which, in turn, produces useless, expensive structures and capability overlaps. It also allows for a lighter, more adapted divisional structure (see Table 2).

Innovations introduced through process reorganization optimize territorial structures, by exploiting specific technical opportunities of "remoteness" and centralization, and increasing within the five companies the emphasis on specific competencies in terms of know-how improvement and groups of excellence creation. The reorganization process, which came to an end in September 1994, was designed to achieve a 20% staff reduction and a 6% to 11.4% inventory reduction over the following two-year period.

The main transformations brought about for each macro process are listed below.

Strategy Formulation, Technological Innovation and Architectural Development Process

According to the Network Division reorganization, key activities such as new technologies selection, assessment and trial, and the industrialization cycle (equipment specifications, field testing, technical standards setting) were covered by the following macro process: strategy formulation, network technological innovation and new architectural development. This macro business process was overlapping the activity previously run by the Research and Development Department and the Computing and Transmission Equipment Department of the largest of the merging companies (i.e. SIP). At Iritel the whole process was supervised by the Equipment Management Department.

Typically merging companies mainly focused on innovations brought about by technological progress, and paid little attention to strategy. Their main points of weakness were essentially the following:

- too little attention was paid to operating aspects related to network access and to competitive analysis;
- the process turned out to be too long (especially when passing from the research/testing stage to network access) and extremely inflexible (because of the difficulties in dropping innovation plans which did not meet expected results).

The activity reorganization made it possible to define four phases:

- creation
- development
- implementation
- start-up.

An outline of the activities referring to each phase is given in Figure 2.

Figure 3 sketches the specific role that the Network Division is expected to play in each phase.

The reorganization of the Network Division was guided by the following major guidelines:

- a shared view, in terms of business/technology, of the processes affecting innovation plans and the related rearrangement of the Network Technological Plan within the corporate strategic planning process;
- a redistribution of responsibilities to make decisions focus on strategies, organizational architectures and computer systems (using "project management" methods);
- an innovation in process implementation (in particular, the monitoring of new technologies and competitive analysis were strengthened; the innovation and development phases were accelerated; and control procedures on implementation were

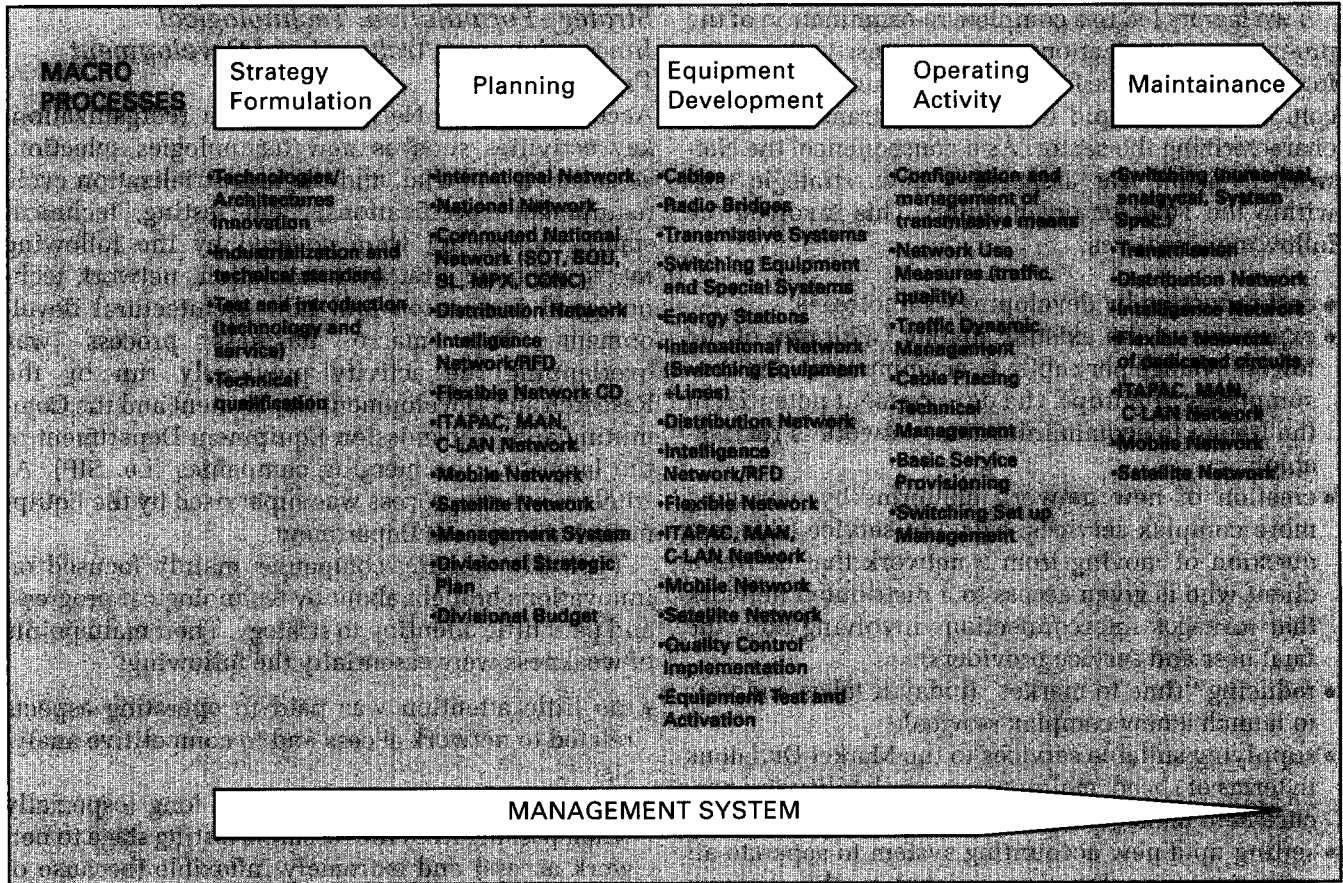


FIGURE 1. Mapping of the telecommunication network main processes.

TABLE 2. The new organization of Telecom Network Division

1	Network Division
10	Network territorial management units
15	Service areas
300	Network working centres

- division (i.e. Private clients, Business clients, International services, etc.);
- network infrastructure development and network size development (development plans);
- organization of network circuits according to the planned structure and the forecasts of traffic development (network project); and, lastly
- formulation of action implementation plans (time action plans and budgets).

maintained to guarantee that business developments were worth carrying out).

Planning and Strategic Design Process

The planning and strategic design process in the Network Division concerns the following activities:

- definition (through dedicated medium-long term plans) of the entire equipment structure of both the long-distance network⁵⁵ and the sections of network (except for the distribution network) used by each

According to reorganization guidelines, the “Planning and strategic design” process concerns the overall development of the Telecom telecommunications network infrastructure in an integrated way, in accordance with the following:

- Telecom strategic objectives (technological innovation, products/services supply, quality/service level, cost position),
- the trend of the service demand,
- consumption and stock levels of network resources.

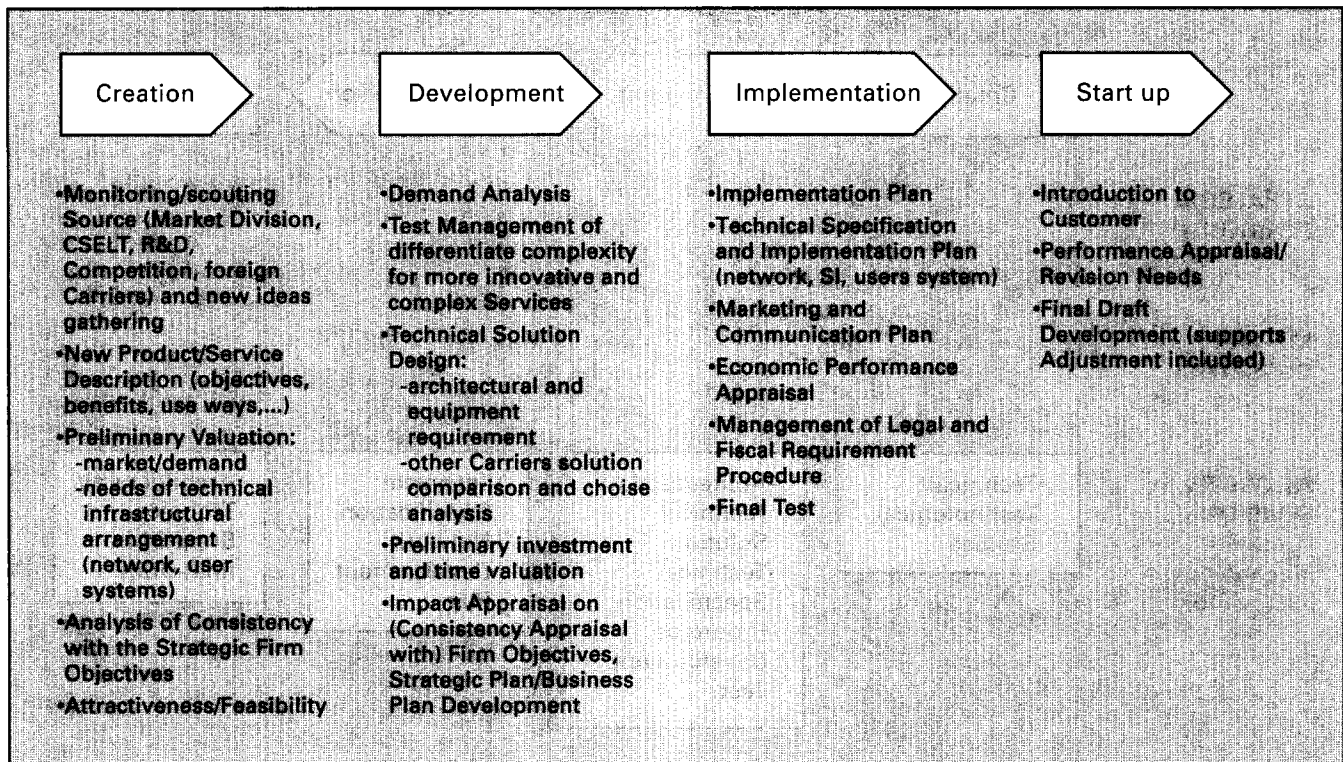


FIGURE 2. Synthesis of activity phases.

The main problems to be solved were related to two factors: the first was the lack of process homogeneity between SIP and Iritel due to the use of different and inadequate software and databases (in terms of completeness, accuracy and timely updating), both in the existing and in the planned network. The second factor related to a planning philosophy that was too strongly medium/long-term-oriented; this implied strict rules and tools of planning (for instance, both long term and short term plans had to specify those elements that could be supplied more efficiently as implementation needs emerged). Finally, the lack of forecast updating procedures and an excessively complicated process resulted in overly long processing times that were no longer compatible with the need for rapid diffusion of particular technologies.

The need to concentrate this function, which was one of the priorities of the integration process, brought to light a number of critical aspects in the planning processes performed by the companies merging into Telecom; this had the effect of further reducing the flexibility of the planning process. For this reason, the innovations produced by the reorganization were designed, on the one hand, to reconstruct all the phases relating to planning and strategic design in the different firms, and, on the other hand, to differentiate the planning activity tasks of the Net-

work Division from those of the Market Divisions, introducing the concept of "current planning".

The new process has the following elements:

- A new rationale for activity planning: "from network to service building".

The changes made in the Network Division planning activity are illustrated in Figure 4.

These changes were two kinds:

- a merger of all the planning procedures both in terms of responsibility (a single structure covering architecture design, plans and budget) and operational mechanisms (a single database for all actions which is detailed and updated as the implementation is drawing near);
- the contribution to the planning activity of Telecom made by the Network Division was now adjusted according to the different impact made by each division of network on the shared network. In the case of the Distribution Network and International Network, the Network Division contribution to planning design was very prescriptive, while for the Mobile, ITAPAC and Satellite Networks' planning design, the Network Division acted only as an interface for the Telecom Planning Direction.

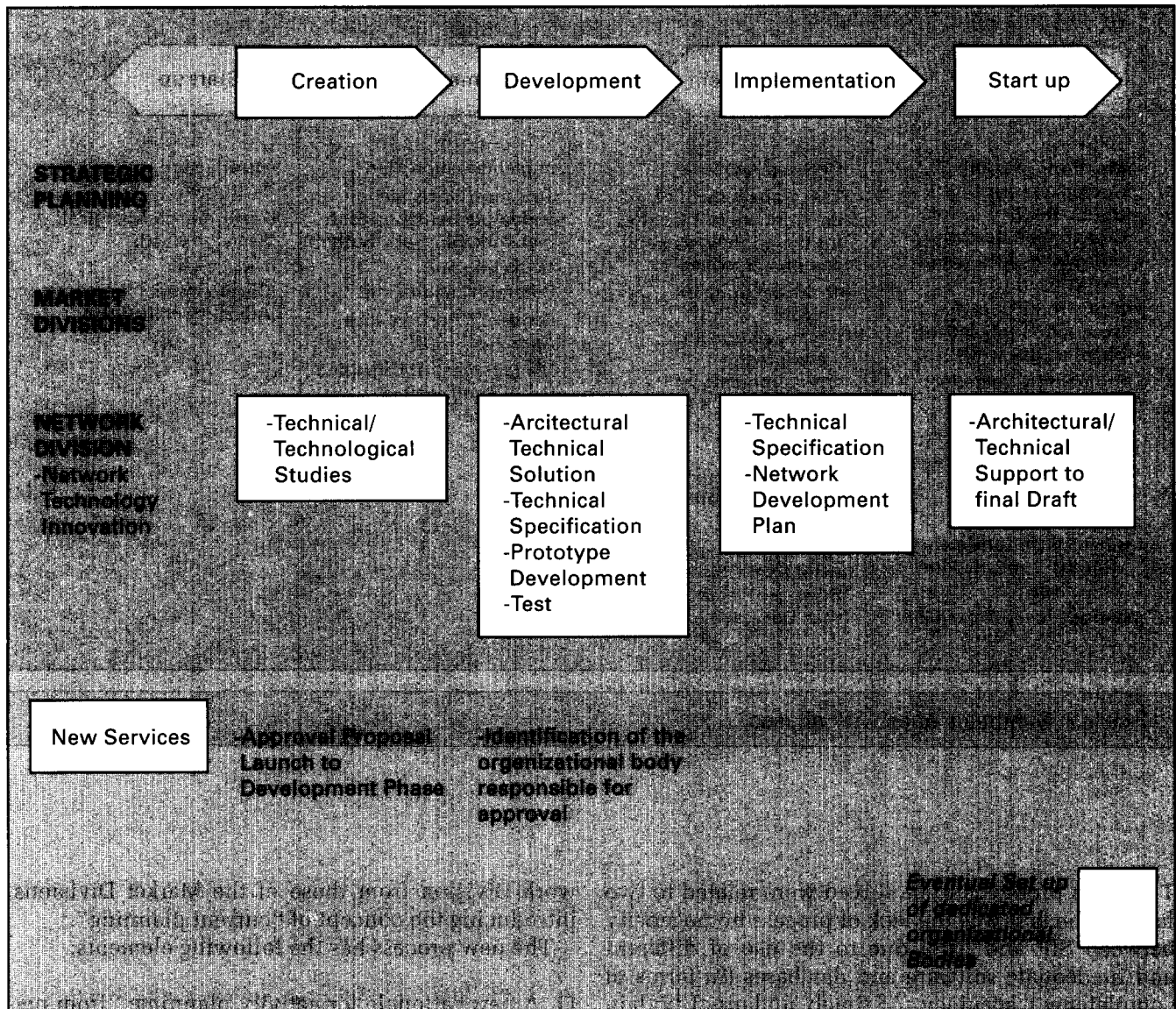


FIGURE 3. Network activity phases control.

- Introduction of “continuous planning”. The new planning process introduces an important innovation with the concept of “continuous planning”, the concept goes beyond the current distinction (based on content and time length) between long term plan, short term plan and budget, since the aim is to establish a flexible method of managing equipment development which fulfils the following requirements:
 - A constant comparison between the requirements of Market Divisions in terms of network utilization and real consumption/availability of network resources:
 - identification of the most suitable engineering or structural action for planned products/services and the relevant time scale;
 - control of the overall consistency of planned development as it relates both to the actual trend of demand and consumption and to disruptive events (e.g. delays in implementation, cuts in investment).
- Thus the “current planning” process is a procedure to implement a flexible adjustment to service needs; its rationale is to see the network as a “system of services supply” which uses a “store” of resources and equipment which is either in operation or ready to set up.
- Planning for unmanaged networks. The con-

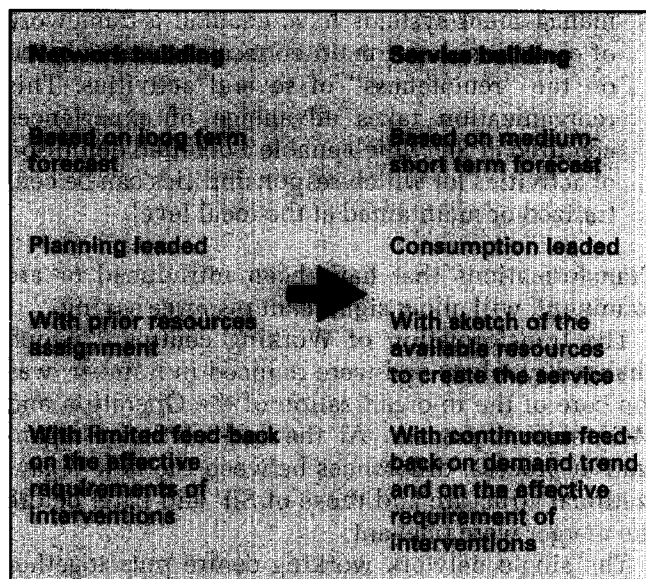


FIGURE 4. New concept of network building process.

centration of planning responsibilities for the Telecom network also means that the Network Division is in charge of the strategic design and control of development (in terms of coherence and feasibility) for mobile networks, the international network, the access network, portions of network allocated to the Market Divisions and packet switching networks.

- Network marketing. The reorganization of the planning and strategic design activity requires the Network Division to change its operational rationale and procedures by turning from a cost centre into a profit centre so that it can supply the Market Divisions (inside the company) and other Carriers (outside the company) with network services. This requires it to make market forecasts, fix transfer prices and supply terms to carry out quality controls.

The Equipment Development Process

The Equipment Development process concerns the improvements implementation, in accordance with technical standards, on the network infrastructure and for increasing the network size. This activity is performed in accordance with planning indications to ensure that work is carried out correctly and that changes or adaptations can be managed along the way.

The main problems relating to the strategic design and implementation of new equipment for companies merging into Telecom were the following:

- supporting activities took too long to implement and it was difficult, as a consequence, to make up for incorrect forecasts or progress changes which often occurred;
- coordinating difficulties: this refers to: i) the numerous steps required by a complex network infrastructure modernization and, ii) interfacing Network and Market Divisions;
- inadequacy of software support for decisions and lack of homogeneity among procedures, software and databases used by SIP and Iritel;
- as far as Iritel was concerned, there was an organizational gap between the high level of centralization in which the process of the Equipment Development was designed and the level of responsiveness required by the related activities in the field.

The main innovations introduced through the reorganization following the merger are:

- Reallocating of the responsibility for development. Responsibility for central and territorial structures that control equipment development (power supply systems, transmission systems, carrying systems, self-commuting systems) was associated. A single structure now controls both the design and implementation of all systems (area and exchanges) and ensures management co-ordination.
- Reduction of production costs. Equipment trial methods were changed in order to abolish duplication which occurred regularly in the former system. New control procedures for the development process were introduced by adopting efficiency/effectiveness indicators. Malfunctions, related to a failure to integrate data processing procedures and to the differences between existing databases, were eliminated by replanning both procedures and databases.
- Emphasis on specialization. A new management role was created to concentrate responsibility for work design and supervision. This organizational change involved a career upgrade, resulting in a change of professional grade and an increase in salary for the new job. The person in charge now coordinates different skills required to operate on different systems (e.g. energy stations, commuting exchanges, transmission systems, laying of cables, special systems, etc.).
- More flexibility in development. The new process means shorter overall development times, (from 18 to 4–6 months for infrastructures and from 3–5 months to 3–8 days for size), by anticipating as

much as possible feasible planning activities and reducing the average extent of development actions.

The Operation and Maintenance Process

This process supervises the management of the network technical system, by ensuring internal (Market Divisions) and external clients that the equipment will be operating and maintained at present levels of performance, quality and availability and at transparent and competitive costs. When defining the processes related to the Network Division, it was decided to study them jointly since the organizing aspects and the change project are strictly correlated and concern primarily the same organizational entities, i.e. the Network working centres.

The main problems that had to be solved in the reorganization of this process were the following:

- extreme complexity of procedures and operating mechanisms which hampered the speeding up of the processes;
- over-bureaucratization of procedures which took time from operational activities;
- difficulty in keeping pace with the network access of constant technological innovations by means of specialized skills suitable to the distribution in the territory;
- a tendency to mainly corrective maintenance, i.e. the abolition of inefficiency and problems with little use of prevention resources supplied by new technologies, especially by digital systems;
- the differences in the transmission systems of former SIP and former Iritel;
- lack of technical tools and organization for the dynamic management of telecommunications traffic.

The main changes that were introduced concern the following aspects:

- introduction of a product maintenance concept,
 - simplification of procedures and operating mechanisms,
 - reduction of administrative practices.
- “Service administration” in the “front end” structures. Procedures in these structures have now been redesigned to allow the management of the entire process of service supply. The aim is to offer the people in charge greater “visibility of the network elements contributing to the service supply” which is achieved by making trade interface structures interact with the network.
- Centralization of operating activities (15,000 people employed). New network technologies and

management systems have enabled a framework of operational and maintenance structures based on the “remoteness” of several activities. This reorganization takes advantage of experiences acquired at SIP which enable a detailed definition of activities for which responsibilities can be centralized or maintained at the local level.

Transformations that have been introduced or are imminent, will allow significant resource saving.

The transformation of Working centres,⁵⁶ which changed typology and were reduced in number, was the core of the re-organization of the Operation and Maintenance process. At the end of the re-organization process, differences between the new organizational structure and those of SIP and Iritel before the merger were relevant.

The single network working centre puts together all the operating and maintenance activities of one territorial area and appears as an integrated structure operating through units dedicated to digital switching, transmission systems and cables, and carrying out all “local” operating and maintenance activities that have not been centralized in supervision and control centres, since they require a presence in the field.

Lessons Learned

This study supports the idea that any M&A necessarily requires merging companies to rethink their operating procedures to some extent. A major transaction will likely involve a major restructuring need within the merging companies. A significant (if not decisive) role on acquisition performance is played by the way post-acquisition integration is carried out.

What have we learned from the Telecom experience that would not otherwise have been obvious from other ways of analyzing a merger? The main insight from this study is that if post-acquisition integration process is very complex, it is necessary to thoroughly re-examine the company’s organization in order to take advantage of the expected synergy among the merging companies. In the Telecom case, the transformation seems even more radical since it corresponds to a complete re-examination of activity, leading to a shift from an organization of activity by functions (fragmented across five merging companies) to an organization by process.

Another observation was the decision to completely redesign the Network Division. The activity managed by this division seems to be the heart of the telecommunication business in the future and consequently constitute a critical activity for Telecom’s performance in the long term. Besides the need for a definition of the “business process” concept, this

transformation gives more importance to transversal structures, thus leading to a reorganization of vertical hierarchical structures (e.g. at the level of area managers) and a significant redistribution of resources. Finally, the analysis of Telecom's reorganization reveals some critical issues for the management of post-acquisition integration related to the following:

- the management of the relationship between central and local services,
- the definition of new objectives (from functional to corporate objectives) and the need for a transformation of performance assessment systems,
- the need for further adjustments to the market in an organization that is still highly product-oriented,
- the inevitable gradual pace of transformation that can be to the detriment of short run performance improvement.

Whilst we would not argue that the way Telecom carried out its restructuring process is directly transferable to other experiences, it does seem to have demonstrated the key role of restructuring when an M&A takes place. We suggest that practitioners will be better able to manage their organizations which experienced acquisitions, if they understand that such transactions require a process of organizational change and that restructuring is critical for post-acquisition performance.

Although we referred to an existing theoretical framework, my analysis was based on only one case, therefore empirical validation and elaboration of these concepts in other settings is clearly needed. More empirical grounding and comparisons will sharpen and enrich the concepts developed here and yield more complex understanding of the phenomenon.

Appendix A. The Organization Structures of the Five Companies before the Merger and the Organization Structure of Telecom after the Merger

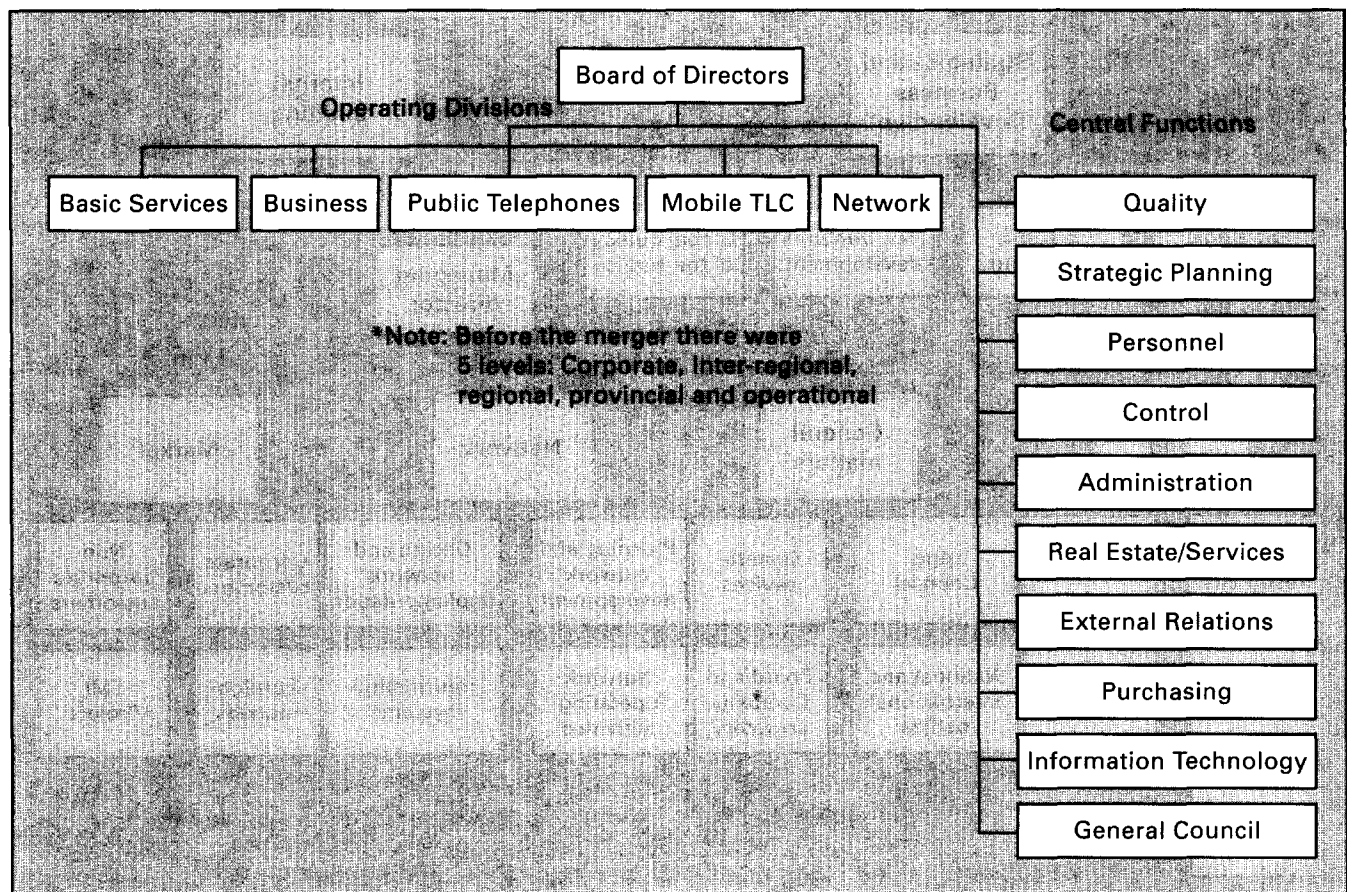


FIGURE A1. SIP's pre-merger corporate level organisation.

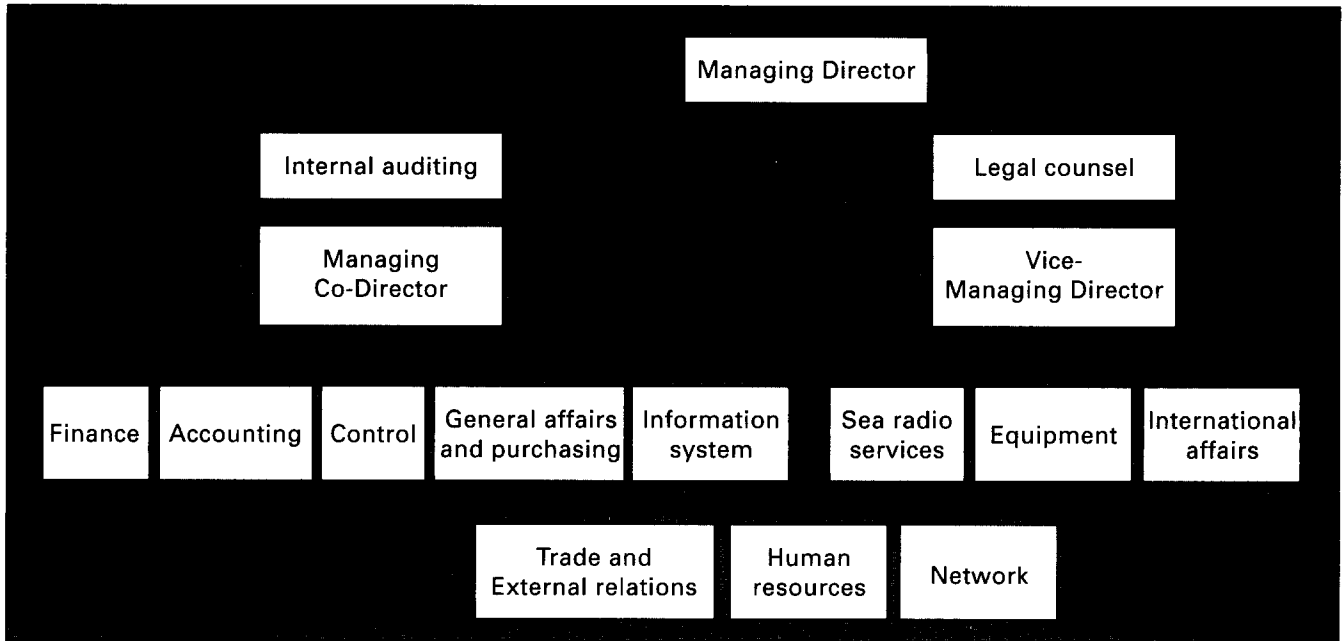


FIGURE A2. Iritel's pre-merger organization.

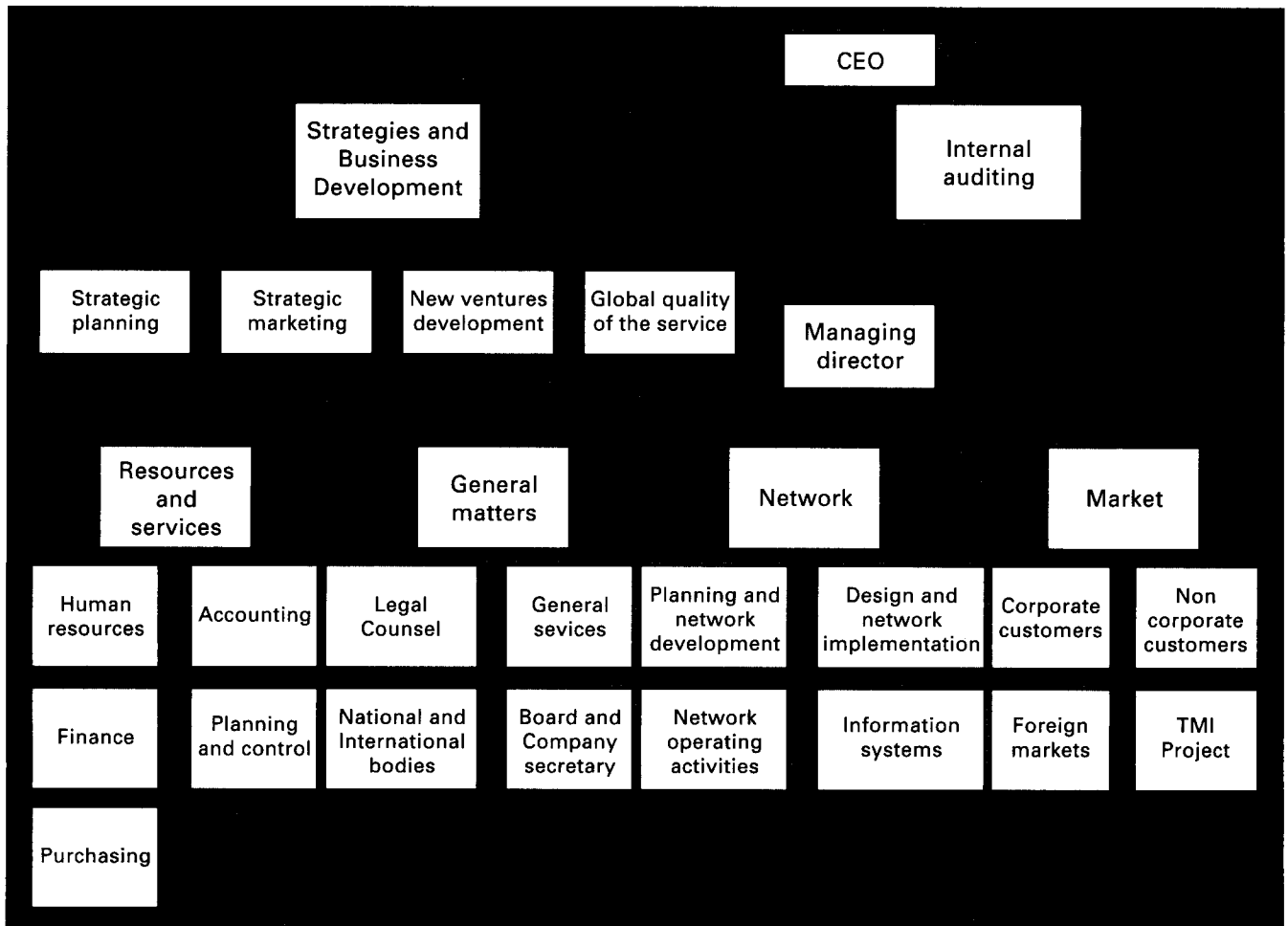


FIGURE A3. talcable's pre-merger organization.

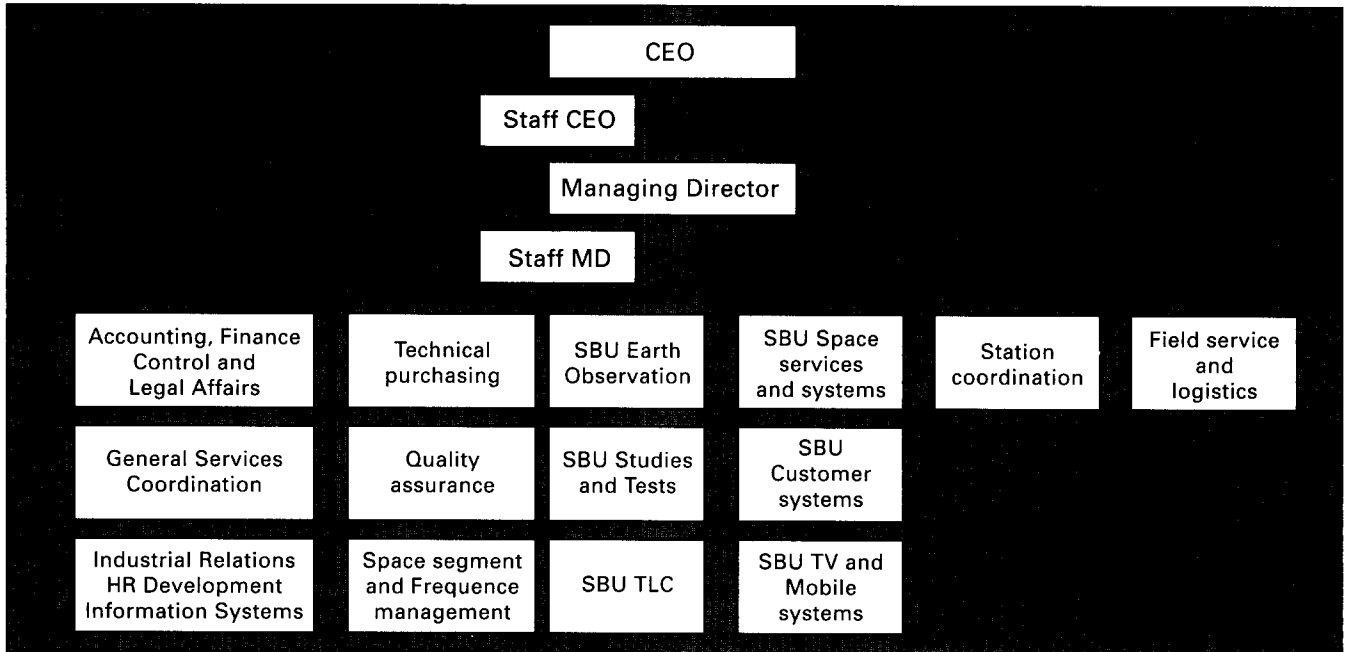


FIGURE A4. Telespazio's pre-merger organization.

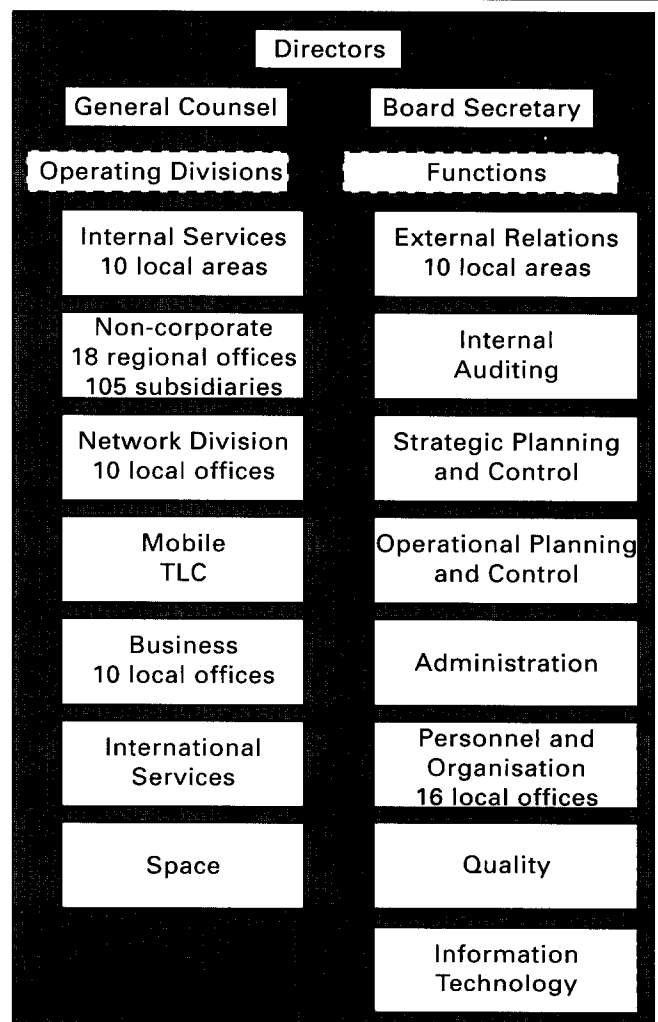


FIGURE A6. Telecom's post merger organization.

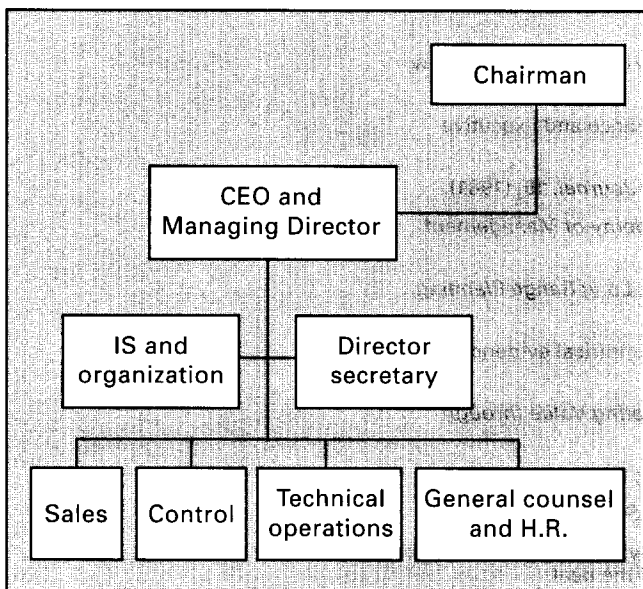


FIGURE A5. SIRM's pre-merger organization.

Appendix B. Research Methodology

This study was designed to explore an aspect of post-acquisition management which is not well defined. Its main purpose was to highlight the role of company restructuring after a merger or an acquisition has taken place.

The research methodology followed was that of grounded theory with the aim of generating a descriptive and explanatory theory of the requirement of organizational changes associated with a merger/acquisition rooted in the experiences of the companies involved in a specific merger.⁵⁷⁻⁵⁹ This approach has been effectively used in organizational research.⁶⁰⁻⁶⁴ The methodology of grounded theory is iterative, requiring a steady movement between concept and data, as well as comparative, requiring a constant comparison across types of evidence to control the conceptual level and scope of the emerging theory. As Pettigrew notes,⁶⁵ this "provides an opportunity to examine continuous processes in context in order to draw out the significance of various levels of analysis and thereby reveal the multiple sources of loops of causation and connectivity so crucial to identifying and explaining patterns in the process of change".

Data Sources

In each of the merging companies data were collected through a variety of methods: unstructured and semi-structured interviewing, documentation review and observation. This triangulation across various techniques of data collection is particularly beneficial, as it provides multiple perspectives on an issue, supplies more information on key-issues, allows for cross-checking and yields stronger substantiation of construct.^{57,64}

Data collection focused on the topics of competitive context, technology, strategic motivations for merging, key players and reorganization process, and sought information on, among other things: the legal environment, the mission,

structure and culture of the firms and specifically the size, competencies and composition of each firm's activities which were relevant to redesign the Network Division after the merger. We undertook interviews with between two and four managers in each of the merging companies. Data collection and analysis proceed iteratively with the early stages of the research being more open-ended,⁵⁷ and later stages being directed by emerging concept, and hence involving more strategic selection of informants and more structured interview protocols. Typically the interview process began with an extended session to develop background on the merger. After these initial meetings, we met with a cross-section of managers (line and staff) at the corporate level and in the divisions and businesses.

In addition to interview data, files were assembled on each company. These files contained annual reports and press clippings going back 3 years, together with any other relevant articles or publications about the companies and their markets. Financial and other data on main European and North-American telecommunications companies were also assembled. This published information was supplemented in some cases by unpublished data, mainly on firms' organization structure before the merger. The research benefited from an intercompany and open presentation of the merger given by two Telecom managers involved in the post-merger restructuring which was held at the University of Bologna⁶⁶ for a management audience. Comments on or criticisms of the post-merger restructuring in Telecom have influenced our thinking and helped to sharpen our findings.

The help of Oscar Cicchetti (Chief of the Staff to Telecom HR-Business Services Direction) and Davide Dassi (Head of Private Clients Direction at Region Liguria) who took part in the Telecom-Single Carrier project and provided most of the primary data is gratefully acknowledged. In particular I would like to thank Oscar Cicchetti for many helpful discussions. Thanks are also due to Bruno Maggi and Ken Casler for comments on earlier drafts of this paper.

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28. Among them Sip and Italcable although controlled by the state owned holding STET SpA were listed at Italian Stock Exchange; Telespazio and Sirm were limited companies but fully owned by the State.
29. From an economic-managerial point of view, the main problems related to this structure are the following: i) the overlap and redundancy of resources (i.e. double networks); ii) the splitting of telecommunication products/services supply against a demand for an integrated-service market; iii) intercompany prices (administrative redundancies, little managerial clearness); iv) staff management (different economic wages and normative arrangements for the different companies).
30. Operations leading to the readjustment of the sector were set out by the Act No. 58-1992 and the CIPE resolution, 2.4.1993.
31. The D.M. (Minister's Decree), 6.4.1990, setting out the National Planning Scheme for Telecommunications confirmed, among other things, the services monopoly related to the management of the public network. Later on, the Act No. 142-1992 provided that all telecommunications services, other than vocal telephony, should be liberalized, except for telex, radio messages, radio car service, communications by satellite for which specific regulations will be provided. Finally, in 1994 it was decided to open the mobile telecommunications market (GSM system) to a second carrier.
32. The nature of companies means their capital intensity, people intensity, technological capabilities and sales volume.
33. This is to say: majority/total capital acquisitions or mergers.
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40. The integration procedures presented by Haspeslagh and Jemison result from the combination of two needs related to acquisition or merger implementation:⁸ the need for strategic interdependence and the need for organizational independence in the relationship among acquisition partners. If one intends to reach a strong strategic interdependence and sees little need for organizational independence, the best approach to integration is *absorption*; if there is little need for strategic interdependence and great need for organizational independence, the recommended approach to integration is *conservation*; if, however, the companies involved in the integration process strongly need both interdependence and independence, the recommended integration method is *symbiosis*. Finally, there is a fourth relationship that could loom when considering the existing combinations between strategic interdependence and organizational independence, which is defined as *holding*. This approach confirms, as it does, the choice made by the acquiring company of not implementing any integration, since there are not the conditions for an active interaction between the two organizational structures in order to create value. We are now talking about operations that are almost exclusively inspired by financial aims or choices related to activity reorganization.⁴⁵
41. Iacchi and Trichilo warn the acquiring companies against rationalizing activities without a careful evaluation of costs and profits:⁷⁰ "Not all horizontal operations lead to such large overlaps in terms of organization, territory, products or markets [...], the wider the overlap of merging or acquiring companies is, the wider the rationalization process will be. And the other way round."
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