

**CONSTRUCTING PERFORMANCE
MEASUREMENT MODEL FOR THE M&A
INTEGRATION PROJECT - *OBJECTIVES AND KEY
RESULTS (OKR)***

**Jyväskylä University
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Master's Thesis

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ABSTRACT

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Title Constructing Performance Measurement Model for the M&A Integration Project - <i>Objectives and Key Results (OKR)</i>	
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<p>Abstract</p> <p>Mergers and acquisitions (M&As) are strategic decisions that can create different benefits for both parties such as running a business more efficiently together than apart. Synergies are one of the most common reasons for M&As. According to M&A research, the success of the integration between an acquirer and acquiree is the strongest predictor of the success of the whole acquisition. Nonetheless, research has found that synergies are usually hard to realize and M&As are a difficult way to create value for shareholders.</p> <p>This Master's Thesis is conducted for a case company that has acquired its competitor to strengthen its competitive advantage in the market. To fulfill these strategic objectives, integration between acquirer and acquiree has to be successful and the expected synergies need to be realized. In this Master's Thesis performance measurement model for the integration project is created using the Constructive Research Approach. The goal of the study is to support the success of the M&A project by constructing a measurement model for the integration project.</p> <p>The measurement model for the integration project was constructed in collaboration with the researcher and company where current information in the M&A research stream and the experience of case company managers were utilized. As a result, the measurement model for the integration project was constructed based on OKR-framework.</p> <p>This Master's Thesis focuses primarily on constructing a measurement model for the integration project but because the researcher was able to see the beginning of the integration project, the applicability of the constructed measurement model was also briefly reported. The measurement model was implemented almost fully into use and the results showed that it brought consistency to the integration project. However, the implementation also showed that some key results were easier to set than bring into use.</p>	
<p>Keywords</p> <p>Merger and Acquisition (M&A), Synergy, the Integration Project, the Acquirer, the Acquiree, Measurement Model, Objectives and Key Results (OKR), Balanced Scorecard (BSC)</p>	
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TIIVISTELMÄ

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<p>Tiivistelmä</p> <p>Yrityskaupat ovat strategisia hankkeita, jotka voivat tuoda kummallekin osapuolelle erilaisia etuja kuten mahdollisuuden tehdä liiketoimintaa yhdessä tehokkaammin kuin erikseen. Synergiat ovatkin yksi yleisimmistä syistä yrityskaupoille. Yritysostoja koskevan tutkimuksen mukaan ostavan yrityksen ja kohdeyrityksen välisen integraation onnistuminen ennustaa parhaiten koko yrityskaupan onnistumista. Tutkimus on kuitenkin osoittanut, että synergiat ovat usein vaikeita realisoida ja yrityskaupat on vaikea tapa luoda arvoa osakkeenomistajille.</p> <p>Tämä Pro Gradu -tutkielma tehdään case-yritykselle, joka on ostanut sen kilpailijan vahvistaakseen omaa kilpailukykyään markkinoilla. Näiden strategisten tavoitteiden saavuttaminen edellyttää sekä onnistunutta integraatiota kohdeyrityksen ja ostavan yrityksen välillä että odotettujen synergioiden realisoitumista. Tässä Pro Gradussa luodaan suoritusmittaristo integraatioprojektille käyttämällä konstruktivista tutkimusotetta. Tutkimuksen tavoitteena on tukea case-yrityksen yrityskaupan onnistumista luomalla suoritusmittaristo integraatioprojektiin.</p> <p>Mittaristomalli integraatioprojektiin luotiin yhteistyössä tutkijan ja case-yrityksen johdon kanssa hyödyntäen olemassa olevaa tutkittua tietoa ja case-yrityksen johdon aikaisempaa työkokemusta. Tuloksena syntyi mittaristomalli integraatioprojektiin, joka rakennettiin OKR-viitekehysten ympärille.</p> <p>Tässä Pro Gradussa keskitytään ensisijaisesti integraatioprojektin mittaristomallin luomiseen, mutta koska tutkija näki integraatioprojektin alun, myös luodun mittariston soveltuvuutta pystyttiin raportoimaan lyhyesti. Mittaristomalli otettiin käyttöön lähes kokonaan luodun mallin mukaisesti ja se toi johdonmukaisuutta integraatioprojektiin. Toisaalta käyttöönotto osoitti myös, että jotkut mittarit oli helpompi asettaa kuin ottaa käyttöön.</p>	
Asiasanat Yrityskaupat, Fuusio, Synergia, Integraatioprojekti, Yritysostaja, Kohdeyritys, Mittaristomalli, Objectives and Key Results (OKR), Balanced Scorecard (BSC)	
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FOREWORD

As it is known, mergers and acquisitions are typically difficult operations that require lots of work. This case was not an exception. There were lots of different tasks that had to be done to progress in the integration project. Despite the high workload, I feel privileged that I was able to write my Master's Thesis during the integration project. I am thankful to the Acquirer that they trusted my abilities and I could be a member of the integration project as a researcher.

I am very grateful to Jussi Lehtonen for his support during the research project. He had an enthusiastic approach towards my Master's Thesis which is why I felt comfortable doing my work. Jussi also has an amazing ability to think comprehensively both from a practical and an academic point of view, which is also one of the reasons why the outcome of this work was successful.

I would like to thank the University of Jyväskylä and especially my supervisor Jukka Pellinen. With his support, a real-world business problem was able to be solved in co-operation with science through the newly constructed measurement model.

In addition of Jukka and Jussi, I also wish to thank Matthew Keränen for his valuable work in reviewing and proofreading the Master's Thesis. I also wish to acknowledge the mental support and encouragement my wife Matleena gave me, especially at the beginning of the research project.

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1 INTRODUCTION

1.1 Background for the Research

Mergers and acquisitions (M&A) can create different benefits for both parties, such as running a business together more efficiently. The merger of two companies can bring different benefits for each party. For example, administration costs can be shared that lead to profitability improvement. These benefits are called hard synergies in the literature. Along with hard synergies, it is important to remember softer synergies. Soft synergies are based on revenue enhancements instead of cutting costs. Actually, synergies are one of the key reasons for M&As. It is also a common way to grow in the market and it may enable growing faster in the market than organic growth would allow.

In some M&As, synergy realization requires a merge with acquirer and acquiree. A merger can create overlapping functions that can be cut to run a business more efficient way. The synergy is raised in these cases. The M&As are a great way to grow and develop a business in theory, but earlier research has found that integration of the acquired company is a complex project and synergy can be difficult to realize. Usually M&As have not been money-spinners for the shareholders (Rao-Nicholson, Salaber & Cao 2016).

This master thesis is conducted for a company which has acquired a company to strengthen its competitive advantage through a lower level of fixed costs and complement its offering in services. Synergy is also in this case one of the key reasons for the M&A. The synergy allows strengthening of the competitive advantage and is therefore crucial to the success of the acquisition.

The literature of performance management presumes that objectives can be achieved by setting different measures for the goals. Measures can be set also for the integration project where the acquired company is merged to the acquirer. The literature emphasizes the importance of an integration plan for controlling the integration process. According to Gates, S & Very, P. (2003) only 44% of respondents in their study declared that their company measured the success of integration, although successful integration is one of the strongest predictors

of synergy realization (Larsson& Finkelstein 1999). This master thesis focuses on the question of how to measure the integration project and attempts to support the success of M&A

1.2 Objectives, Limitations and the Research Question

This Master's Thesis has both scientific and practical objectives. The practical objective of this master thesis is to support synergy realization in this M&A case. The measurement model for the integration process is constructed in this case. The purpose of the measurement model is to identify the form of synergies and derive the factors that lead to synergy realization. The goal of the measurement model is to report the progress of the integration to the management board. It allows the management board to follow the integration process and react to the problems in the early stage.

This case also provides a great opportunity to examine one M&A closely. It provides new information from many different viewpoints. This research will produce a new measurement model for the integration process which itself is notable information.

The research question for the case study is:

- **How can the M&A integration project be measured?**

The research question is supported by another research question:

- *What is essential for success in the integration project?*

The supportive research question will be answered by a review of pertinent literature.

M&As have been researched from many points of view over many decades. The major research streams can be divided into three major areas: Strategy perspective, organizational perspective and financial perspective (Birkinshaw, Hakanson& Bresman 2000, Larsson & Finkelstein 1999, Cartwright & Schoenberg 2006). Depending on the researchers, other perspectives are also identified, such as process perspective and human resource perspective.

The financial stream examines the effect of M&As on shareholder wealth. The strategic stream focuses on the motives of the M&A and the stream researches how synergies have affected on acquirer's performance. The M&A has also been studied from the organizational and human perspective. This research stream emphasizes the view of the human perspective in M&As. The studies have found that employee resistance does negatively affect synergy realization (Larsson & Finkelstein (1999). The studies have also found that differences in management style negatively influenced acquisition performance.

The process stream focuses on actions during the integration process. This stream researches integration from two different points of view. One school focuses on the human aspect and emphasizes the importance of human integration in the M&A. The other perspective focuses on task integration where the focus is on benefits in combination (Birkinshaw et al 2000).

This case will be researched from a mix of strategy and process perspectives. The strategy perspective helps to understand the reasons for the acquisition. The strategic motives are behind the goals that have been set for the integration project. Accordingly, the process perspective provides the guidelines for the setting measures for the integration project. Earlier research provides a good basis for integration planning.

This research is a case study and the results of this study cannot be generalized.

1.3 Methodology

The purpose of this Master thesis is to solve the problem of how to measure integration project performance and gain synergies. The problem will be solved by using a Constructive Research Approach (CRA). CRA is a qualitative research method which aims to solve some real-world problem.

Constructive research method can be roughly divided into two parts. In the first stage, the solution is innovated in collaboration with researchers and a company. It is important that the construction is based on earlier information.

In the second phase, the applicability of new construction will be researched. Researchers (Rautiainen, Sippola & Mättö 2017, Kasanen, Lukka & Siitonen 1993) have identified market tests and a relevance diamond to assess reliably the applicability of a construction. These tests have to be done to assess the usefulness of construction.

Despite the importance of researching the usefulness of the developed construction, the applicability will not be researched in this study as the research would extend too much. Thus, the applicability can be researched in more detail in further studies.

1.4 Keywords

This master's thesis has several keywords that are presented below.

Merger and acquisition (M&A) is a process where a company acquires another company's shares and becomes the owner of a company. The acquired company can be merged into the acquirer when the companies merge and become one company.

Synergy is a phenomenon when two different parties are stronger together than apart. There are different kinds of synergy that are presented in more detail in the theory chapter. Synergy can be described as an equation where $1+1$ is more than two.

At the core of this case study are two companies that are merged together. The processes by which two companies are merged together are called by different names such as integration process, integration project or post-merger

integration. In this study the merger of the acquirer and the acquired company is called to **the integration project**. The integration project comprises full integration of the acquired company into the acquirer. Meanwhile, **integration** in this study refers to some specific areas such as the integration of IT-processes.

The Acquirer for whom this master thesis is conducted and who acquired the other company will be called **the Acquirer** and the acquired company will be called **the Acquiree**.

1.5 The Structure of the Thesis

At the beginning of the Master's thesis, a review of the literature is conducted. It consists of two parts. In the first part, the theory of M&As is examined. The motives for M&As are presented from the perspective of synergies and growth. After that, the review of literature and previous research on integration projects and synergies are presented. The second part of the theory chapter begins with the introduction of measures and traditional measurement models followed by an introduction to a relatively well-known framework for performance measurement objectives and key results (OKR). The last part of the theory chapter summarizes the M&A theory and performance management by focusing on measuring the integration project.

In the third chapter, the motives for the acquisition are presented from The Acquirer's point of view. The purpose of the chapter is to tell why the Acquiree was acquired and how it can enhance the Acquirer's competitive advantage and support its strategic objectives. After that introduction, a Constructive Research Approach is presented and the schedule of the research project is presented.

The measurement model is built piece by piece in the fourth chapter. The measures are derived from the overall goals and every measure is presented in detail. The main points of the fourth chapter are summarized in figure 7 where the constructed measurement model is presented. In the last chapter, the applicability of the measurement model is presented briefly and the main findings of the Master's thesis are summarized along with further research suggestions.

2 MEASURING INTEGRATION PROJECT AND SYNERGY GAINS

2.1 Merger and Acquisition

Researchers have identified several reasons why companies expand through M&As. M&As can be driven by different motives.

Acquisitions can create synergy allowing two firms to create greater effort together than what an independent company could produce alone. M&A can also give a possibility to grow faster than organic growth would allow. The motives of M&As can be summarized in three main categories: growth, synergies and other managerial goals. (Gaughan, 2005, 46, Trautwein 1990, Gugler, Mueller, Yurtoglu& Zulehner 2003)

2.1.1 Synergy

The most common reason to acquire a company is to gain synergy benefits. Synergy as a word is often associated with physical science and it means when two different factors combine and are able to be more efficient together than as independent factors (Gaughan 2005, 56). The concept of synergy is widely used in most of the strategic management, finance, and accounting literature (Garzella& Fiorentino 2014). Synergy exists in an acquisition when the change in target-firm shareholders' wealth and change in acquiring-firm stockholders' wealth is greater than zero. The synergy can be described also as an equation $2+2 = 5$ (Capron 1999, Gaughan 2005, 57, Gruca, Nath& Mehra 1997, Bradley, Desai & Kim 1988). Lubatkin (1983) explains synergy simply: it occurs when two companies can be run more efficiently together than apart.

Synergistic gains are a crucial part of a successful acquisition because they allow an acquirer to reduce notably the price of an acquired company by enhancing revenue enhancements or running business in a more efficient way.

Researchers have identified many different sources of synergy. Lubatkin (1983) has recognized three basic kinds of synergistic gains: technical economies, pecuniary economies, and diversification economies.

The most common source of synergy is called technical economies and it is based on scale economies. Economies of scale are based on the theory that unit costs can be lowered producing a higher quantity of outputs. The fixed costs can be spread over more than one product, so the firm is able to use its resources more efficiently and lower its average cost curve. The lower costs enable a firm to lower its prices and thus the merged company will gain a competitive advantage over its competitors.

The scale economies can arise also in marketing when the combined firm is able to run marketing efficiently. Banking synergy can also occur when a

combined firm is able to get savings per employee for insurances (Lubatkin 1983). According to Trautwein (1990), the combined firm can also lower the cost of capital by lowering systematic risk and gaining increased access to cheaper capital. A combined firm is also able to allocate its capital more efficiently.

Pecuniary economies are the second source of synergy. These economies are achieved when the combined firm is able to dictate the market or suppliers. The main idea of pecuniary economies is to buy a competitor and to dictate the market. Dictating the market allows the firm to force customers to accept higher prices or force suppliers to accept lower prices. These two types of pecuniary economies are monopoly and monopsony economics (Lubatkin 1983). The pecuniary economies should not arise nowadays in Europe and the United States because of the competition policy (antitrust policy) ensures fair competition on the market. The main purpose of legislation is to prevent combinations that can limit competition on the market (Gaughan 2005, 7)

Lubatkin (1983) presents the third source of synergy which is diversification economies. This theory is related to the conglomerate mergers, but it can also be applied in a service business where the customers may represent different industries. According to modern portfolio theory, the best possible diversification is achieved by a portfolio of assets that are negatively correlated to each other (Lubatkin 1983). This means that some industries can be struggling and going down while at the same time other industry booms. As a result, the risk of market volatility is spread out.

Diversification economies can still appear through a wide customer portfolio even if all of the customers were in the same industry. In the service business, the bargaining power of a customer can be reduced by a wider customer portfolio. For example, sometimes problems can appear in a customer relationship and a customer can delay paying the bill. If problems are encountered with big customers who have a big share of revenues, the company can face a cash-flow crisis. However, if the company has a wide customer portfolio, risk can be spread out. The impact of the loss of big customers can also be reduced by a wider customer portfolio.

The synergy from diversification economies does not appear straight in company cash flow. But it will improve the company's overall risk tolerance and strengthen its market position. This in turn may affect the company's cost of capital and create synergies.

More recent research has classified synergies into operating synergies and financial synergies that also can be associated with Lubatkin's (1983) theories. These synergies have different sub-categories depending on researchers. Devos, E.& Krishnamurthy, S. (2009) and Gaughan (2005, 57) have summarized the synergy as the sum of operating synergies and financial synergies. They split operating synergies into increased operating profits and savings from reductions in investment. Increased operating profits may appear in the form of greater market power, which allows gaining synergy at the expense of customers and suppliers. This theory is consistent with Lubatkin's (1983) pecuniary economies. The acquirer may also increase profits by selling complementary products in its own distribution channels.

The acquirer may also gain synergy from cost reduction. Merger generates productive efficiencies by lowering per-unit costs. This theory is also in line with Lubatkin (1983).

Another source of synergy is financial synergy. The target firm may have unexploited tax benefits that can benefit the buyer. The financial synergy may also be realized in a situation where a target firm has great growth potential but doesn't have access to capital. The problem will be solved if the target firm merges with a company that has access to capital. The problem in this theory is the unlikelihood that a firm with great growth potential would be denied access to capital (Gaughan 2005, 67).

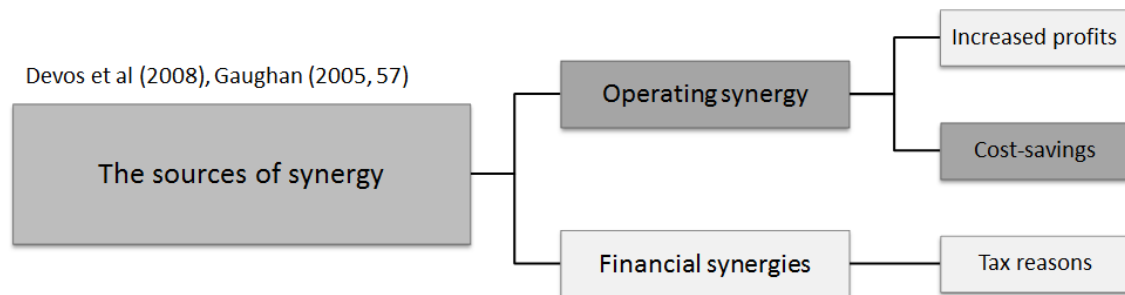


Figure 1 The sources of synergy (Devos et al. 2009, Gaughan (2005, 57)

Capron (1999) separates synergies into revenue-based synergies and cost-based synergies. Cost-based synergies are based on the scale economies and cost savings from distribution, marketing, R&D or sales through spreading fixed costs to higher volume. Cost-based synergies are in line with Lubatkin (1983) technical economies and with Devos & Krishnamurthy (2009) and Gaughan (2005) operating synergies.

Capron's (1999) revenue synergies differ slightly from other researchers (Devos & Krishnamurthy 2009, Gaughan 2005, Lubatkin 1983). Capron (1999) states that a firm can gain revenue synergies by increased market coverage. Increased market coverage can be understood as a softer theory of monopoly theory. Revenue synergies may also be gained by enhanced innovation ability. Greater market coverage allows a firm to sell its product to a wider body of consumers, thus increasing revenues. Horizontal acquisitions can enhance innovation capability (for example patents, technology) and it can be converted to the prices or volume and thus increase revenues.

Synergy is often cited as the main reason for the acquisition. Tarun K Mukherjee, Halil Kiyamaz & H Kent Baker. (2004) researched the motives of acquisitions by interviewing CFOs (Chief Financial Officer) in the US. The results showed that achieving operating synergy was the key reason for acquisitions. This is interesting because at the same time there is evidence that synergy gains are difficult to realize (Gaughan 2005, 42). Rhoades (1993) analyzed 898 bank M&As completed during the years 1981-1986 and researched the synergistic benefits of bank mergers. The results showed that horizontal bank mergers didn't have a significant effect on efficiency compared to other banks. In his later research (Rhoades, 1998), he summarized nine case studies on the efficiency

effects of bank mergers. According to these results, four of nine bank mergers were successful in improving cost efficiency but five were not.

Devos & Krishnamurthy (2009) investigated 264 large mergers and researched synergistic gains from mergers. The results of the research showed that the synergistic gains arise primarily from cutbacks and investment expenditures rather than from increased profits. Actually, Devos & Krishnamurthy (2009) didn't find merger gains from increased market power. The lack of evidence for the gains of market power may be due to the effective regulation of anticompetitive merges. Tax benefits from the mergers were only 1,64% in additional value. The research suggests that tax benefits are not a major reason for the acquisition.

2.1.2 Growth

The second main motive for M&As is the growth of a firm. Industry growth is influenced by a wide variety of factors and it depends on the economy's ups and downs. Therefore, organic growth can be slow and present its own risks. M&A offers a possibility to grow in a slow-growth business by merging with competitors, and it gives a possibility to grow faster than they otherwise could (Gaughan, 2005, 46-50).

Penrose, 2009, 221-222) argues that if a company wants to expand to a new market it has two choices: to build a new company and create the market itself or to acquire a firm and gain access to the market. If expansion is considered profitable, the company expands through acquisition only if the acquisition is cheaper than internal expansion. It should always be carefully analyzed how the acquisition would be a cheaper way to expand to the new markets (Penrose 2009, 221).

Katramo, M., Lauriala, J., Matinlauri, I., Niemelä, J., Svénnas, K. & Wilkman, N. (2013, 24) explains that an acquisition is always a strategic decision because companies often widen a product portfolio and try to access new markets. Consequently, they argue that careful consideration must be given to whether an acquisition is needed as well as the best way to accomplish firm objectives. There are risks that the acquisition will fail and waste the firm's resources.

Trautwein (1990) presents a monopoly theory that can be included in growth theory. The theory suggests that a firm will achieve market power by acquiring a competitor and is able to limit competition in the market. As a consequence of limiting competition, the firm is able to raise prices and gain increased profits in the long-term. However, laws limit horizontal acquisitions to prevent monopolies that can harm competition (Trautwein 1990, Gaughan 2005, 7)

2.1.3 Integration Project

The integration project is the most important part of M&A success and the main source of value creation (Larsson & Finkelstein, 1999., Angwin &

Meadows, 2015., Zhang, Ahammad, Tarba, Cooper, Glaister & Wang 2015). Value creation in an acquisition begins when the agreement is signed, and the value creation depends on how the two firms are working together (Haspeslagh & Jemison 1986). Haspeslagh and Jemison (1991) define integration as an interactive and gradual process in which individuals in two different companies learn to work together and cooperate in the transfer of strategic capabilities. In the integration process, the acquiring company has to pay special attention to the interaction between two companies in order to create an atmosphere that is needed for capability transfer and successful integration. The managers must also pay attention to combining similar business activities and coordinating business units that share the same resources. The integration is a complex project which requires lots of time and may cause conflicts among business units which must be solved (Barkema & Schijven 2008).

The integration project begins after an agreement of acquisition is reached between the acquired company and the acquiring company. The acquisition may have to be approved by competition authorities.

The post-acquisition integration process is widely recognized as a critical part of the acquisition and the primary source of value creation (Zhang et al 2015, Angwin & Meadows 2015, Larsson & Finkelstein 1999). In fact, most M&As have not fulfilled their financial expectations. M&As have not improved a buying company stock price either financial performance (Schweiger, Csiszar & Napier, 1993). Katramo et al. (2012, 451) assess in their book that approximately 50-75% of acquisitions are unsuccessful. Even though most M&As are unsuccessful, it does not mean that they are totally unsuccessful, but rather that they have not fully achieved the objectives. M&As are rarely unsuccessful due to poor preparation of acquisitions but rather due to unsuccessful integration.

Studies (Zollo & Meier, 2008, Larsson & Finkelstein 1999, Pablo 1994) show that successful integration enhances acquisition performance. The most potent source of value creation in acquisitions comes from synergies (Gates & Very 2003) and the synergy realization depends on how the acquired company is integrated into acquiring company after the agreement. (Larsson & Finkelstein 1999).

Haspeslagh & Jemison (1986) point out that some managers try to capture value by tax benefits and selling of parts of the acquired company instead of creating value. Value creation is a more difficult process. It is an uncertain time-consuming process and has a risk of unsuccess. Capturing is a one-time event while value creation is a long-term development of two combined firms. Capturing value can be useful sometimes but managers should focus on long-term development and unlocking synergies. (Haspeslagh & Jemison 1986, Barkema & Schijwen 2008). The acquisition should be seen as a process that creates value in the long-term instead of trying to capture value in the short-term (Jemison & Sitkin 1986).

Value is created through the capability transfer stage and value can be created in four different ways. Each of them presents different integration challenges. Acquisition benefits can arise from 1) operational resource sharing, 2)

functional skill transfer, 3) general management skill transfer and 4) combination benefits. The first three require capability transfer whereas combination benefits do not include a formal capability transfer stage. M&A can increase purchasing power and market power when two companies merge together. Financial resources may be shared leading to lower financial costs. But all in all, these activities do not need integration to achieve.

Resource sharing is a major source of value creation in this case. Economies of scale allow the combined company to operate at a lower overall cost than that at which they operated independently. In this case the administration and management will be shared which leads to more efficient administration. Indeed, this requires overlapping functions to be eliminated without violating business performance (Haspeslagh & Jemison 1991, 28-29).

The value can be created through functional skill transfer and general management skill transfer. In the first-mentioned, the company creates value by bringing in functional skills that help to make the acquirer more competitive. This is easier in theory than in practice, because skills are typically embedded in activities and habits. General management skill transfer occurs when a company becomes more competitive by improving the depth of its general management skills. Sometimes companies can make acquisitions to acquire good managers from other firms. These two aspects are not the primary source of value creation in this case.

2.1.4 Integration Strategies

Haspeslagh and Jemison (1991) have identified three different strategies for integration. These are based on two dimensions; strategic interdependence and organizational autonomy. Strategic interdependence, which can also be called strategic fit, suggests how two merged companies are able to create value in terms of capability transfer and resource sharing. It determines if value is created by capturing or by long-term development of the merged company. The other dimension, organization autonomy which can also be called organizational fit, focuses on the culture of acquiring the company's culture whether it is maintained or dissolved. (Haspeslagh and Jemison 1991). The scope of synergy potential depends on the strategic fit and the synergy realization depends on the organizational fit.

The first integration strategy is called "Preservation" when the acquired company requires high-level autonomy and low-level strategic interdependence. The second strategy is called "Absorption" when the acquired firm requires a low-level of autonomy and high-level strategic interdependence. In this strategy, the acquired company is fully consolidated into the parent company. Symbiotic acquisitions require both high strategic interdependence and high organizational autonomy to enable co-existence, and this forms the third strategy (Haspeslagh and Jemison 1991).

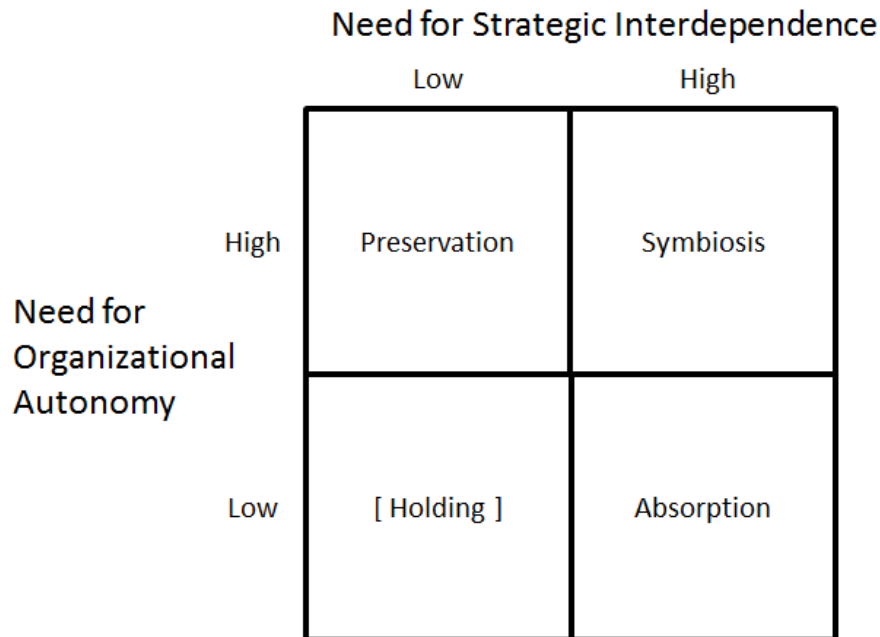


Figure 2 Integration strategies (Haspeslagh & Jemison 1991)

Pablo (1994) has presented three integration strategies that are similar to the Haspeslagh and Jemison theory. Pablo (1994) recognizes three levels of integration which are low-level, moderate level and the highest level. The level of integration can be defined as the degree of post-acquisition change in the integration process. In a low-level integration, only the financial risk is shared with the same management system and communication. At a moderate-level integration, physical and knowledge-based resources are shared. This level may also include a small amount of authority, reporting, and delegation. In the highest level of integration, all resources are shared. In this situation, the acquired company adapts planning systems and procedures, structure and culture of acquiring the company. The highest level of integration can be considered the same as Absorption which was one integration strategy presented by Haspeslagh and Jemison (1991).

When two companies are integrated with each other, the result is a hybrid organization where value creation depends on the management and leadership of the integration. The level of integration should be carefully considered because under or over-integration may cause a failure to create value or, even worse, destroy value. A high level of integration theoretically enhances the unlocking of synergy potential but may also have a negative impact on organizational culture and destroy value. The level of integration depends on acquisition type as well as the cultural and political characteristics of two companies.

The relationship between the level of integration and acquisition performance has been researched. Datta (1991) researched 173 acquisitions in the U.S manufacturing industry. He found that the differences in management style in-

fluenced negatively the acquisition performance both in high post-acquisition integration and low post-acquisition integration. The results were highly significant.

In addition to the aforementioned integration strategies, there are other classifications of how two firms can be integrated. M&As have been researched from many different points of view. One school has researched M&As from the human and organizational perspective whereas another from the process perspective. Therefore, integration strategies differ in the literature. Birkinshaw et al. (2000) have combined a different point of view and distinguished integration into two parts: human integration and task integration. Human integration includes soft issues like management practices, cultures, and values. The purpose of human integration is to create a positive attitude towards the integration among both companies. The purpose of task integration is to identify and realize operational synergies. According to Birkinshaw et al. (2000), successful integration is the sum of a high level of completion of both human and task integration. If the firms are only integrated at the task level, operational synergies are achieved at the expense of employees and if the firms are integrated only at the human level, operational synergies are not achieved but the employees are satisfied.

The integration can also be described as a two-stage process: the first 100 days and capability transfer stages. The first 100 days starts just after the deal is approved by both companies and the government (Gates & Very 2003). The main goal of the first 100 days is to create a warm atmosphere for synergy exploitation. The first 100 days is a difficult part of integration because lots of different tasks have to be done quickly. After the first 100 days, an acquirer can focus on the capability transfer stage. This stage can be split into several sub-phases. The objective of this stage is to unlock synergy potential which was expected from the deal. (Gates & Very 2003). This model is similar to Birkinshaw et al. (2000) separation.

The acquisition process can be summarized into four phases. In the first phase acquiring company selects the acquisition target. In the second phase, the agreement is negotiated with the target company. In the third phase, managers have to decide how to manage post-integration and select the integration strategy. In the fourth and final phase, the acquired company is integrated into the acquiring firm (Haspeslagh & Jemison 1991)

2.1.5 Success Factors

There are many different types of acquisitions in different countries and different industries. Every acquisition has its own specific objectives and acquisitions can be done with many different motives as was written in the previous chapter. Therefore, it is difficult to define generally the success factors which lead to success in mergers. Haspeslagh & Jemison (1986) claims nothing can be learned and said in general about acquisitions.

According to Gates & Very (2003) there is no one way to measure the performance of integration because the integrations have their own characteris-

tics depending on the contingencies of the specific deal. Research has shown that integration should be seen as a contingent process. Haspeslagh & Jemison's (1991) theory of integration (need for strategic interdependence and need for autonomy) strategy helps to select the most suitable strategy for integration.

Zollo & Meier (2008) have researched integration performance by exploring different factors among the integration. They analyzed 88 articles in M&A research to solve the problem of how to measure integration performance. They identified two dimensions from the research; the level of analysis and the time horizon. The level of analysis can further be divided into three parts; task, transaction and firm-level while the time horizon consists of short-term and long-term time objectives. Based on earlier research Zollo & Meier (2008) describe the acquisition performance causal logical chain where the acquisition performance is the consequence of short and long-term task performance and the firm performance is a consequence of acquisition performance.

Despite the contingencies of M&As, research has identified several factors that affect M&A success. According to Zollo & Meier (2008) research integration process performance has a significant positive impact on overall acquisition performance and overall acquisition performance has a significant positive performance to financial performance. Larsson & Finkelstein (1999) found that organizational integration has a significant influence on synergy realization and organizational integration was the strongest predictor of synergy realization.

Larsson & Finkelstein (1999) also found that employee resistance significantly influences synergy realization. They argue that employee resistance is one key antecedent to M&A success. On the other hand, Zollo & Meier (2008) did not find a significant correlation between employee retention and overall acquisition performance. They had different companies in their study and they found that employee retention is significantly stronger in the case of learning acquisition than cost-driven acquisitions, which can be explained by the fact that human capital plays a bigger role in learning-based acquisitions. These results excellently show the contingency of acquisitions and why acquisitions have different success factors. Employee retention is one key success factor in the long-term which determines the success of acquisitions, assuming that employees play a crucial role in the business.

Also, one key motivation of the acquisition may be the control of customer relationships to get access to a new market area with new customers (Anderson., Havila& Salmi 2001, Katramo et al. 2012, 24). It is logical that if customer relationships are the reason for the acquisition, customer retention is also a key success factor. According to Zollo & Meier's (2008) research, customer retention has a significant positive effect on overall acquisition performance. They had four different types of acquisitions in the research, but customer retention didn't have a significant influence on all acquisitions. Customer retention is not always crucial for the acquisition success and this observation also emphasizes the differences between acquisitions.

The speed of an integration project has been cited as an important success factor for acquisitions. Still, the relationship between integration speed and

performance is disputed. The speed of integration can have different meanings, but it can be defined by time to complete the process (“how long did the integration process take?”) or progress over a given time. It is difficult to define when integration is completed and therefore speed in integration is often defined as progress over a given time (Bauer, King & Matzler 2016, Angwin 2004).

The duration of the integration process was also mentioned in integration strategies. Gates & Very (2003) divided integration into two parts: the first 100 days and capability transfer stage. Birkinshaw et al. (2000) divided integration into human and task integration where task integration especially can be linked to time perspective.

The first 100 days is a widely mentioned concept in M&A literature. The biggest decisions and changes should be made during the first 100 days. The merging organizations are unstable during the integration process and a shorter time in a suboptimal condition can reduce uncertainty among the employees and the external environment. Rapid integration is also a competitive advantage and competitors have less time to respond to the new organization. The volume of changes made or started in the first 100 days they are more likely to be associated with successful outcomes (Angwin 2004)

Bauer et al. (2016) researched the effects of speed in the integration process. They separated integration into the task integration and human integration. They found a statistically significant negative influence between task integration speed and performance but didn't find a statistically significant positive influence between the speed of human integration and performance. Indeed, the correlation was positive between the speed of human integration and performance. Bauer et al. (2016) presume that the speed of human integration lowers uncertainty and thus may have a positive impact on performance. Homburg & Bucerius (2006) found in their study that the speed of integration exhibits a strong positive influence in the case of low external/high internal relatedness and vice versa negative impact in the case of high external/low internal relatedness.

There are many different factors mentioned in the literature that are important for integration success. Leadership is crucial in the integration process as it is crucial also in the entire success of the firm management. M&A creates uncertainty and it can lead to clashes in cultures, systems, and work practices. Strong leadership is key during the integration process (Schweiger et al. 1993). Communication is related to uncertainty and leadership and it is also mentioned as a key factor in the integration process. (Katramo et al. 2013, 483, Very & Schweiger 2001).

Datta (1991) found that differences in management style (-0.4, $p < 0.05$) and differences in reward and evaluation systems (-0.22 $p < 0.05$) did influence negatively on acquisition performance in high-integration cases and influenced significantly even in low-integration cases. Larsson & Finkelstein (1999) also found that management style similarity influenced negatively on employee resistance whereas employee resistance influences negatively synergy realization.

Larsson & Finkelstein (1999) also found that organizational integration influences highly positively on synergy realization. He found that the greater

the degree of interaction and coordination between combining firms, the greater the degree of synergy realization.

2.2 Performance Measurement

Performance measurement is an important part of performance management. Performance can be defined as an ability to achieve objectives whereas performance management is a process whereby the company manages its performance and objectives. The performance management process determines how an organization uses various systems to manage its performance (Laitinen 2002, Bititci, Carrie & McDevitt 1997).

Performance measurement can be defined as a process of quantifying the main objectives (Neely, Gregory & Platts 1995). In the measurement process, the key factors are identified and measured to recognize how a company can be developed (Järvenpää, Partanen & Tuomela 2001, 287). At the core of performance measurement is a focus on better understanding the drivers of organizational success. The other purpose of performance measurement is to ensure that an organization pursues strategic goals that lead to the overall success of the company (Amaratunga 2002, Epstein 2004).

Measurement is representing information by numbers (Laamanen 2005) and the purpose of measurement is to produce knowledge for the firm management. The factors that affect most the organization's success (critical success factors) can be represented or communicated to the employees by measures (Järvenpää et al 2001, 287). Measuring key success factors help employees and management track the way to achieve strategic objectives and gives information on how different processes are working (Amaratunga & Baldry 2002, Järvenpää et al. 2001).

The success factors are at the core of the measurement system. Success factors are the factors that determine organizational success. Critical success factors are the crucial factors for organization success. The critical success factors vary among companies depending on the strategy. The number of late flights can be used for example as a critical success factor in a premium airline. The late flights increase costs in many ways and decrease customer and employee satisfaction. The late flights cause a lot of harm to the firm which finally decreases firm profits. (Parmenter 2015, 4-7, Järvenpää et al. 2001).

Measurement is not an end in itself but a tool for more effective management. Measures represent what happened but don't tell why it happened. (Amaratunga & Baldry 2002). The information is a valuable resource for the company. The measures summarize the organization's information and the value of information arises from using information effectively and it is therefore a valuable resource for the company.

2.2.1 Measures

The golden age of performance measurement in science was in the nineties. Between 1994 and 1996, there were 3615 articles published on performance measurement (Neely et al. 1995). In the literature, performance was previously measured by financial measures but in the mid-1980s, many researchers criticized the use of financial measures as a performance measure (Bititci 1994, Neely 1999, Garengo, Biazzo & Bititci 2005). Researchers proposed that non-financial measures are needed in the performance measurement systems in addition to financial measures. Financial measures are historically based, and managers need to understand key parameters which are not reflected by traditional financial measures. Therefore the non-financial measures which are derived from top-level objective are also needed in the firm performance measurement system (Bititci 1994, Neely 1999, Laitinen 2002). Financial measures lack strategic focus and encourage managers to short-termism, and local optimization that can harm the success of future and continual improvement (Laitinen 2002). The financial measures fail to provide information on what a customer needs and wants.

Neely et al. (1995) define performance measures as a metric of quantifying efficiency. Parmenter (2015, 4-7) widens the definition by separating four types of measures. He divides measures to Key Result Indicators (KRI) and Key Performance Indicators (KPI). KRIs are financial measures that are the results of many actions carried out by different teams in the organization and give a clear picture of how a company has performed. (Parmenter 2015, 7, Malmi, Peltola & Toivanen, 2006). Result indicators (RI) are also financial measures, which are a result of different activities. KRIs give an overall view of firm financial performance and RIs give a narrow view of performance. KRI can be for example customer satisfaction or net profit whereas RIs can be sales made last week.

KPI's are non-financial measures that focus on the aspects that are the most critical for the organization's current and future success. These measures are based on critical success factors. KPIs should not be mistaken for KRIs, because KRIs show earlier performance and do not explain achieved results. It may be difficult to find where problems occur by interpreting KRIs as a KPI. (Parmenter 2015, 3-8).

The measures should be linked to the company's strategy and to the firm's long-term goals. A measure cannot be too complicated, rather it should be clear and easy to understand (Lonnqvist, Kujansivu & Antikainen 2006, 32).

2.2.2 Measurement Models

A performance measurement system (PMS) gathers all measures together to quantify firm performance (Neely et al. 1995). The number of measures varies between firms. There can be as many as 50 measures in PMS in large companies, but in the small and medium enterprises, PMS may have only a few measures. (Järvenpää et al. 2001, 298). The main purpose of PMS is to support the decision-making process by gathering and analyzing the information.

Most of PMS were developed in the 1990s. The need for integrated and balanced PMS was identified in the late eighties and the traditional PMS was criticized for focusing on financial measures. There was consensus in the research in the 1990s that PMS should be balanced. Almost all models which were developed after mid-1980s were balanced measurement models. Different studies see the balance in different ways. Keegan, Eiler & Jones (1989) developed a performance measurement matrix and they emphasize the balance between external and internal measures. McNair, Lynch and Cross (1990) created a performance pyramid which shows how the vision and its strategic objectives are achieved by unit-level in top-down measures. This model is also balanced between internal and external measures. The performance pyramid is also balanced between financial and non-financial measures. The most common measurement model, the Balanced Scorecard was developed in the early 90' by Kaplan and Norton (1992). It has four perspectives and it is balanced between both financial and non-financial measures and internal and external measures. The latest models such as integrated performance measurement system (Bititci et al. 1997) and performance prism (Adams & Neely 2000) are also balanced between internal and external perspectives and they include both financial and non-financial measures.

The relationship between a firm strategy and PMS is also emphasized in the literature. Most popular measurement models which were mentioned earlier are based on a business strategy where the strategic objectives are interpreted from the company vision. The lack of alignment between strategy and performance measurement has been found as one of the main obstacles to achieving expected results. A well organized PMS system may be the single most powerful tool to enhance strategy implementation (Garengo et al. 2005, Laitinen 2002). A PMS must be designed and implemented based on the company's strategy to support strategy implementation.

Causality between different dimensions in PMS is a widely recognized part of PMS. Researchers have written about the causality in PMS and there should be a causal chain between expected results and the drivers of those outcomes. Kaplan & Norton (2000) presents, for example, a strategy map for creating a PMS with a causal chain of performance drivers. In the performance pyramid, measures are also linked to each other. The pyramid shows a causal chain of how the results are achieved (McNair et al 1990). Indeed, it can be difficult to understand the relationships between results and the drivers.

The depth and breadth of PMS are also underlined in the literature. The depth means the level of detail to which measures are applied and the breadth of the scope of the activities included in PMS. A broad performance measurement model helps to give a holistic view of company performance and an in-depth model helps to define specific aims. According to scholars, companies should focus first on the breadth of the model and secondly on setting specific objectives. (Garengo et al. 2005).

2.2.3 Balanced Scorecard

The balanced scorecard (BSC) is one of the most popular models both in literature and in practice. Kaplan & Norton (1992) developed PMS during a year-long research project with twelve companies. At the core of BSC is the firm's vision and strategy and all measures in BSC are derived from the vision.

BSC has four perspectives: financial, customer, internal business and innovation and learning perspective. BSC is a balanced measurement system between desired outcomes and the drivers of those outcomes. It is also balanced between short- and long-term objectives and between hard and soft measures. BSC complements financial measures with operational measures on the customer, and internal processes. Measures should have causality to each other in BSC to show how results are achieved. Operational measures are drivers of future financial success and this forces managers to focus on critical success factors that drive future success. Combining different measures from different perspectives helps managers understand many interrelationships (Kaplan & Norton 1992)

BSC became a very successful PMS. The majority of Fortune 1000 companies adapted to BSC (Awadallah & Allam 2015). BSC overcame the inadequacies of financial measures which were criticized and allowed managers to focus on drivers of financial performance instead of focusing on financial results.

BSC complements financial measures with three different perspectives. The customer perspective identifies the customer and market segment where the company competes (Kaplan & Norton 1996). Firms tend to fall into four categories: time, quality, performance, and service. Firms have to identify what is critical to their customers. The customer perspective typically includes generic measures of successful outcomes such as customer satisfaction, customer retention, new customer acquisition, customer profitability, and market and account share in targeted segments. These measures are desired outcomes that are driven by different actions taken in the business. The customer measures are not KPIs but RIs, because they show how the firm has performed earlier (Parmenter 2015). The firm has to choose customer measures that support its strategy implementation (Kaplan & Norton 1992).

The internal business perspective is strongly associated with the customer perspective. The purpose of the internal perspective is to focus on drivers that the firm must do internally in order to meet its customer needs. The desired outcomes from the customer perspective and ultimately in financial results are driven by the critical success factors in an internal business perspective. Therefore, these measures are also KPIs. The measures in the internal business perspective vary depending on the company and industry. In the airline, the key internal measure can be the number of late flights as was seen earlier (Parmenter 2015) and the cycle time in the manufacturing company (Kaplan & Norton 1992). Companies should attempt to identify their core competencies and internal business measures should stem from the business processes that have the greatest impact on customer satisfaction (Kaplan & Norton 1992)

Internal business and customer processes combined identify the factors that drive future success. But this itself is not a sufficient measure because the changing environment requires continual improvement. Innovation and learning should include all competencies that are needed to implement strategy and achieve the firm's overall goals. Innovation and learning perspective also ensure the development of the company and focus on the changes that are needed in future success (Kaplan & Norton 2000).

The entire financial performance is driven by these aforementioned perspectives. The financial outcomes should not be used as a KPI because they are historic-based and refer to earlier performance (Parmenter 2015). The financial perspective can include different measures. Financial goals can be divided into three classes: survivor, succeed and prosper based again on firm's overall goal and strategy. The measures in the financial perspective are typically cash flow, quarterly sales growth, operating income, increased market share and ROE (Kaplan & Norton 1992). The figure below (Figure 3) is from Kaplan & Norton's study (1992). It summarizes all perspectives and shows how perspectives are connected together to achieve desired outcomes.

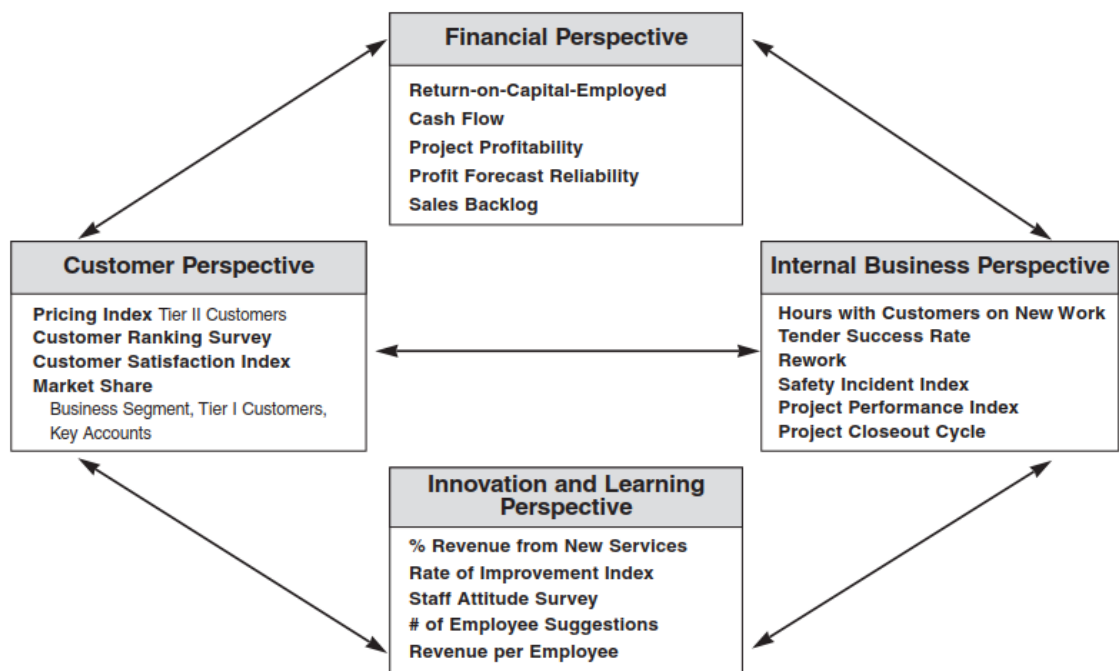


Figure 3 Balanced Scorecard (Kaplan & Norton 1992)

2.2.4 Other Measurement Models

Performance prism has elements that can make it a more suitable PMS to M&As. The performance prism was developed in the early 2000s by Neely et al. (2001). The performance prism is called the second-generation framework for performance measurement which better suits a more dynamic business environment.

The performance prism has five interrelated perspectives that are stakeholder satisfaction, stakeholder contribution, strategies, processes, capabilities,

and stakeholder contribution. The performance prism highlights stakeholder satisfaction and suggests companies consider who the key stakeholders are and what they want. Once the needs of stakeholders are identified, then it turns to strategies. The purpose of the strategic perspective is to identify what kinds of strategies are required to fulfil stakeholders' needs. The third facet of the performance prism is the processes facet. The processes facet has to solve what the key processes are in order to achieve stakeholders' needs by chosen strategies. Capabilities are the fourth perspective of the performance prism. Capabilities are the combination of people, practices, technology and all other aspects that together enable the execution of processes. The fifth and last perspective - Stakeholder contribution - widens the point of view outside of the organization. This perspective is based on the relationship between stakeholders' satisfaction and contribution. Not only do organizations have to deliver value to stakeholders but also an organization has a relationship with stakeholders. The other earlier developed PMS does not recognize this relationship (Neely et al. 2001).

Performance prism is not a pure performance measurement tool. It is a framework that helps management teams think about what is critical for business management. All in all, these measurement models also emphasize the importance of balance in measurement models.

2.2.5 Objectives and Key Results

Although the BSC is the most popular PMS; it has serious limitations both in concept and in practice. BSC has been researched from many points of view and many problems have been identified in the literature (Awadallah & Allam 2015). One of the new performance management tools is a new framework called Objectives and Key Results. The framework has been adopted by many large companies especially in the United States. Large companies such as Google and Zalando use OKRs as a framework of performance management. (Niven & Lamorte 2016, 171, Doerr 2018) Despite the popularity of OKRs as performance management in this decade, OKR was developed earlier than the BSC and performance prism. It was developed by Andy Grove when he was working at Intel as CEO in the late 1970s. (Doerr 2018, 42)

OKR is a performance management tool that consists of one objective and a few key results that support the objective. OKRs can be defined as a management methodology that helps organizations focus on the same important efforts throughout the organization (Niven & Lamorte 2016, 8, Doerr 2018, 7)

The objective is at the core of the OKR-performance management tool, as the name suggests. The objective is defined as the desired direction in which the company wants to go. It simply explains what needs to be achieved. Good objectives are significant, concrete, action-oriented and inspirational (Doerr 2018, 7). Objectives should be attainable and doable in a quarter. They have to provide business value and they are always qualitative. When OKR's are properly designed and deployed, they help companies avoid confusion and navigate together directly towards the company objectives (Doerr 2018, 7).

Objectives alone do not lead companies to success, but also key results are needed. Key results (KR) are quantitative measures that determine when the objective is achieved. KRs in OKR context can be associated to the KPIs that were discussed earlier. Like KPIs, KRs have to be quantitative so they can be measured verifiable. Doerr (2018, 55) even wrote that it is not the key results if it does not have a number. Moreover, KRs should measure objectives both horizontally and vertically where a mix of outputs and inputs help to cover all critical aspects of achieving the goal (Doerr, 2018, 54-55). This is exactly in line with earlier research studies in which it was found that measures should be financial and non-financial.

OKR differs a lot from the BSC and thus it is a great alternative to the BSC. Literature (Antonsen 2014, Awadallah & Allam 2015,) has found that BSC is difficult to implement successfully. In unsuccessful cases, BSC is a list of metrics that make implementation difficult and frustrating. The optimal implementation of BSC leads to uniformity and goal orientation which can make a hierarchical and bureaucrat structure. BSC implementation can also lead to employee resistance.

OKR has a different approach to implementation. Individuals, teams and business units set their own objective that is based on the company's overall objective. OKR users can assess their own performance on a scale of 0 to 1 which is based on users' key results. For instance, Google uses a scale of 0 to 1 and they use green, yellow and red colors for assessing the achievement of an objective. The green color is used when the objective is achieved over 70% (0,7), yellow when the objective where nearly achieved but something was missing. In these situations, the objective is about half achieved and the result is between 0,4 and 0,6. The results below 0,3 mean that the objective was not achieved, and these are colored red. (Doerr 2018, 120-121). In order to use a scale of 0-1 to assess the objective, the key results must be quantitative.

Self-assessment and reflection are a big part of OKR. Every individual, team or business unit who uses OKR as a performance management tool should review and reflect their own results. There might be strong or weak efforts that hide behind the numbers. Self-assessment and reflection help to define objectives from bottom-up style. It also helps to develop by learning from mistakes, which improves future performance (Doerr 2018, 123-15). As can be seen, OKR is a performance management tool that gives responsibility to the employees to set objectives themselves, whereas BSC is a tool for managers to implement and track the strategy implementation that focuses on the company's overall vision.

One of the greatest strengths of the BSC is a balance between measures. Successful BSC covers all critical success factors in a causal chain of causal relationships that determine the financial performance in the short-term and long-term. It helps management react to the problems and focus on the critical aspects. In spite of balance, the perspectives have been criticized. BSC may force companies to focus on four fixed perspectives although the perspectives may not be suitable to all industries. It has been argued that BSC is suitable for the engineering industry but is not suitable for other industries such as the service industry. Thus, the regular concept of BSC is difficult to use in different con-

texts (Antonsen 2014, Awadallah & Allam 2015). For instance, Grotenhuis (2010) created a measurement model for integration, but modified perspectives based on the needs of integration. The framework of the BSC was used in JP Morgan and Chase merger, but perspectives were financial, technical, client and people. These perspectives constituted KPIs which were monitored during the integration (Epstein 2005)

Despite the innovation and learning perspective, BSC has been criticized for harming its innovation capability. Times have changed from an industrial economy to an innovation economy where intangible assets such as knowledge and innovation capability are the most valuable resource of the firm. The world is dynamic, more complex and changing fast. There is more uncertainty in the economy and the most successful companies are defined by their ability to adapt changes (Voelpel, Leibold & Eckhoff, 2006). Antonsen (2014) found that BSC strengthen formal control in the company and formal control can reduce organizational learning and reduce employees' scope for contributing new ideas. According to studies, although BSC has different perspectives it may not be working in practice.

Comparing OKR to BSC, OKR does not have fixed perspectives that define the structure of the measurement model. This has strengths and weaknesses. The flexibility of OKR is one of its main strengths, because the OKR framework only requires setting the main objective and the key results to the objective.

But because the OKR is not balanced by nature, there are risks of employees focusing on a narrow point of view. OKR should be balanced and cover all critical success factors. (Doerr 2018, 5). OKR should be vertically and horizontally connected to each other. Vertically, a company should have one overall objective which is supported by business unit and team objectives. Objectives should also be horizontally connected to each other. Horizontally connected OKRs can also be called shared OKRs. The purpose of shared OKRs is to avoid situations where one team is celebrating the success of achieving its objectives when at the same time another team cannot achieve its objectives because of the actions of another team. When the objectives are connected to each other horizontally, team objectives are linked to each other and the teams together drive the success of the whole company (Niven & Lamorte 110-112).

2.3 Measuring the Integration Project

What you don't measure, you will never know until it is too late to know. An old adage says that what you can't measure, you can't manage. According to Gates & Very (2003), only 45% of acquirers used a formal plan for performance tracking or reporting activities and only 44 % of the acquirers measured the success of the integration. If acquirers are not tracking their objectives during the integration process is it surprising that at the same time many acquisitions fail to achieve the objectives? Acquirers could reduce the M&A failure rate

critically by effective use of the synergy measurement model. (Garzella & Fiorentino 2014).

Measuring the integration process is important because merging two companies together is a challenging task and requires careful supervision. Measures provide clear communication of key targets within both companies. Measures also help to pinpoint problems earlier and allow managers to redirect attention to the bottlenecks. Monitoring the integration should be started as soon as the plan is elaborated by starting to identify the key measures of integration performance (Gates & Very 2003).

Still, M&A performance is a complex construct and the literature has not recognized one overreaching factor that explains the M&A performance. M&A performance has been studied by strategic management, corporate finance, and organizational behavior literature for decades. Despite the massive amount of research, there is no consensus in the literature on how to measure M&A performance, although there is consensus on the importance of the integration process and synergy realization in the acquisition success.

2.3.1 Assessment of Synergy

Unsuccessful synergy management can transform a good deal into a very bad deal. As was written in the previous chapter, studies have emphasized the difficulty of achieving synergy. According to studies (Larsson & Finkelstein 1999, Garzella & Fiorentino 2014), the degree of synergy realization is a measure of the success of the whole deal.

Fiorentino & Garzella (2015) suggest acquirers create a synergy management statement that identifies where synergy arises. The value of synergy should be identified in the design of PMS. In their previous research (2014), they argue that an effective synergy measurement model should be developed to increase the likelihood of M&A success.

In this Master's thesis, synergy is only divided into two parts; cost-based synergies and revenue-based synergies. This classification is also known in literature even though there is a wider classification of synergy in many studies (Capron 1999, Devos et al. 2009, Lubatkin 1993). This classification is used for two reasons. First, only cost-based synergies were calculated in the due-diligence process even there may be a moderate likelihood to achieve revenue-based synergies. According to Eccles, Lanes & Wilson (1999) revenue enhancements are difficult to calculate and they should not be included in total synergy calculations. Secondly, the synergy assessment system is attached to the firm's PMS and the simpler classification of synergy is easier to track and report to the management group.

There are different types of synergy values and they should be identified and assessed separately. Potential synergy (PS) determines the overall synergy which can be achieved by the deal. Integrations costs (IC) are related to the integration process and they are needed to realize synergy potential. Expected synergy (ES) is the value that was assessed by the firm in the due-diligence process. Realized synergy (RS) is the synergy value that is captured after the inte-

gration process Garzella & Fiorentino 2014, Fiorentino & Garzella 2015). The final synergy value can be presented as an equation:

$$SV = RS = ES = (PS - IC)$$

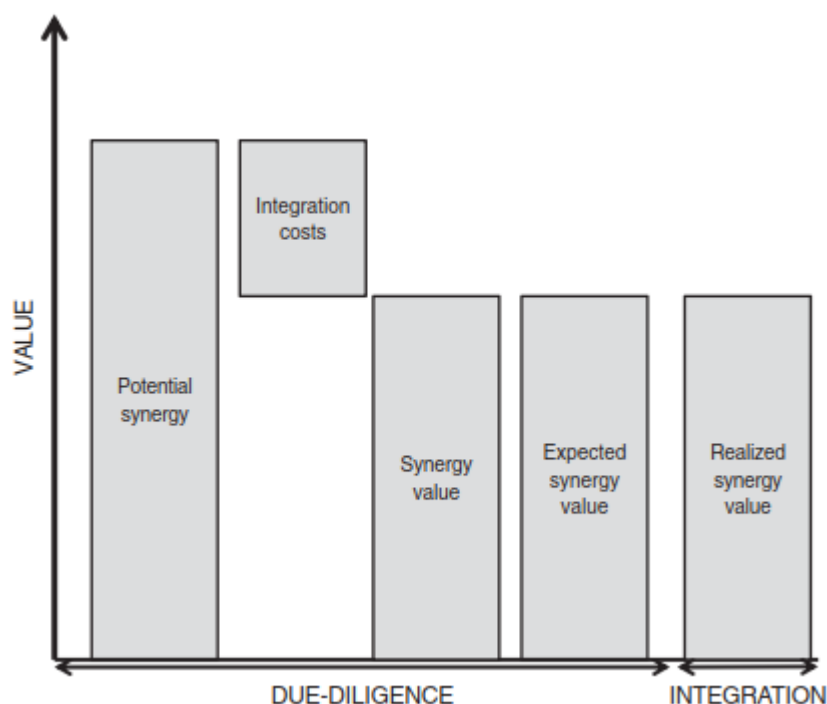


Figure 4 Synergy value (Garzella & Fiorentino 2014)

Fiorentino & Garzella (2015) identify three pitfalls to achieving synergy. The first is called mirage and it appears by overestimating synergy potential. Overestimating synergy potential naturally diminishes synergy value. The second pitfall arises by underestimating the difficulties to achieving synergy potential. This phenomenon is called gravity hill and it raises integration costs and thus diminishes the synergy value. The third pitfall to achieving synergy is due to the weak integration process and the failure to achieve synergy value although the synergy was estimated realistic and carefully.

These pitfalls can be avoided by careful synergy estimation. Garzella & Fiorentino (2014) developed a synergy measurement model to increase the likelihood of M&A success and to reduce risks of inaccurate synergy estimations. In the model synergistic flow is based on three different factors; the size of synergy, the timing of synergy and the likelihood of achievement. Synergy value is the sum of discounted synergistic flows. The discount rate has to be used if synergy is expected to be achieved in the long-term. Garzella & Fiorentino (2014) suggest using this model in pre-deal decision-making to estimate synergy potential.

2.3.2 Integration Project Performance

Studies in M&A research know the importance of synergy realization in the acquisition performance (Gates & Very 2003, Garzella & Fiorentino 2014,

Larsson & Finkelstein 1999). The success of acquisition can be assessed by the degree of synergy realization. Therefore, synergy is one of the key factors of the acquisition and integration process measurement should support synergy realization.

What measures should acquirers use in the integration process? This is a difficult question and it has been studied in the research. Zollo & Meier (2008) conducted a large review of literature and classified the measures of acquisition performance. The framework was based on M&A research between 1970 and 2006. They found two main dimensions from the studies in the acquisition performance measurement: time horizon and the level of analysis. The time dimension can be separated into short-term performance measures and long-term performance measures. For example, financial performance can be measured both in the short-term and long-term.

The level of analysis has three different levels (task, transaction and the firm level) which are linked to each other by a causal logical chain. The task-level consists of different tasks which all have their own task performance. The transaction-level encompasses all tasks and phases which are included in the integration process. The widest level, the firm-level consists of the performance of two merged firms. They describe the final success by a logical chain where the performance of different tasks affects the transaction level (integration phase) success and which again determines the success of the whole performance of the merged firm.

Zollo and Meier (2008) researched this model and found that integration process performance (transaction level) positively influences overall acquisition performance and overall acquisition performance positively influences financial performance. The results were highly significant at a p-level lower than 0.01.

These results show that the acquisition performance is a multi-faceted concept that can be approached in many different ways. The acquisition performance consists of many different factors and there is not one overarching measure that covers the total acquisition performance. The observation is in line with earlier results in the measurement research that measurement should be balanced between short and long-term and between internal and external factors.

Katramo et al. (2015, 480-483) argue that every integration process should have clear goals and measures for the goals. Measures can be derived from the overall goals of the acquisition. Gates & Very (2003) suggest acquirers identify the value creation scenario: how value is created by integration and the value leakage scenario to define how an acquirer can destroy value. Gates & Very (2003) suggest that the measures of integration project can be derived from the value drivers, in other words, those variables that contribute to creating or destroying value.

BSC can be used as a framework for integration process measurement. It fits the integration process because it is balanced and covers different perspectives of the process and does have causality among the different perspectives and factors. Gates & Very (2003) present different M&As in their study and classify the measures of integration based on BSC's perspective. Epstein (2004)

identifies the key determinants of M&A success in his study and analyzes J.P. Morgan and Chase Manhattan Bank with these key determinants. Measures were grouped into four perspectives, financial, technical, client and people, that are the same elements as in the BSC. Grotenhuis (2010) developed an M&A scorecard which is based on the Balanced Scorecard. However, this model was modified. The financial perspective is replaced with finance and synergy, customers to customers and market, internal business processes with the integration process and the learning and growth were replaced with development. At the core of the M&A scorecard is strategy and management instead of vision and strategy in BSC. BSC has to be modified to make it a suitable tool for post-merger integration measurement.

Neely et al. (2001) suggest using the performance prism for integration process tracking. They argue that BSC has a lot of shortcomings that make it an unsuitable tool for most post-merger integration situations. At first, the performance prism looks at the needs of stakeholders from larger points of view than BSC. BSC addresses only shareholders and customers whereas performance prism looks at employees, suppliers, intermediaries, regulators and of course customers and shareholders.

Managing PMI differs a lot from daily business. The deadlines are tighter, strategies have to be crystal-clear and difficult decisions have to be taken quickly. Performance prism starts from the needs of stakeholders and drills down to capabilities via strategies and processes and therefore may give a more holistic view of performance value drivers than BSC (Neely et al. 2001). In any case, the performance prism is also a balanced model that covers different aspects.

All in all, integration is a multi-stage process and the acquisition performance is the sum of many different factors. The literature has found that there is a negative correlation between employee resistance and synergy realization and customer retention positively influences acquisition performance. The acquisition performance depends on synergy realization. (Larsson & Finkelstein 1999, Gates & Very 2003)

Integration is a contingent process which means that firms and acquisition vary among the different industries and there are not generic measures that explain the success of performance although some factors were found. The acquirer has to set the main objectives and milestones of acquisition in the earlier stage of integration and derive the measures from key value drivers

3 DATA & ANALYSIS

3.1 Introduction of the Acquisition

The Acquirer is a large public limited company that does service and project business in Europe. The Acquirer is among the biggest companies in their key operating countries. About two-thirds of revenues come from services and one-third of revenues from projects.

The service business is a labor-intensive business that does not require heavy investments. Therefore, profits in the industry are at a moderate level. Nevertheless, the return on investment (ROI) can be raised to a higher level because the service business can be operated by negative working capital. This means that the operating business does not require capital and the accounts receivable turnover is higher than the accounts payable ratio. The Acquirer has a higher receivable turnover ratio than the accounts payable ratio which means that customers pay their debts quicker than Acquirer pays its own debts. The efficient use of working capital enables a high cash flow ratio which allows sharing more dividends to shareholders.

The earnings before interests and taxes (EBIT) result from a differential between the gross margin and fixed costs. The gross margin level is a profit after fixed costs. Fixed costs comprise personnel costs, premises, fleet, IT-costs and marketing and consulting costs. The scale of economies plays a big role in the industry. Usually the most profitable companies can operate at relatively low fixed costs. Thus, one of the key reasons for the acquisition is that the resources can be shared and the business can be run together more efficiently at lower fixed costs in relation to revenues. M&A strengthens the competitiveness of both companies. The reader may remember that one definition of synergy was to allow working together more efficiently than apart (Gaughan 2005).

The Acquirer has a large geographical coverage because the service business requires being close to customers. In the industry employees can be used effectively with different customers in the same geographical area. Customers' demand for services varies a lot by month. Therefore, customers do not

want to produce services themselves but are willing to outsource some tasks. The companies in the service industry gain a competitive advantage if they can serve different customers in the same geographical area steadily and efficiently. Along with the low level of fixed costs, the most profitable companies in the industry can run a business with a high level of billable work. The M&A enables more efficient use of employees because more customers can be served in the same area. In the best-case scenario for instance, some special services can be produced in the same geographical area instead of serving customers in a larger geographical area which creates waste hours such as travel costs.

Secondly, the biggest customers pay a big role in the business. The biggest customer comprise about one-third of the revenues and the ten biggest customers comprise two-thirds of revenues. This is an advantage and disadvantage. The business can be run more efficiently with big customers because of scale economies but on the other hand losing the customer would reduce the revenues significantly and would cause undesirable consequences such as job terminations. In addition, the large customers also have strong bargaining power which can weaken Acquirer's position and especially Acquiree's position because it is smaller. The customers can delay paying receivables and it would reduce cash flows and cause financial problems. The bargaining power of the customer can be lowered by being larger. The importance of one customer decreases as the size of the business grows.

Lubatkin (1983) recognized this phenomenon over 30 years ago. He presented diversification economies as one of the key sources of synergies. Although this idea is often related to conglomerate mergers it is along with synergies one of the key reasons for acquisitions. After the acquisition, the biggest customer comprises only about one-fifth of revenues. Being less dependent on the biggest customer also will improve the acquirer's bargaining power on its customers.

In addition to spreading the risk of customer loss, risk can be spread also by industries. Before the acquisition, the biggest industry comprised almost half of the revenues. Being dependent on one industry increases the risk of market volatility which can also cause job terminations and reduce cash flow. After the acquisition the biggest industry will comprise only one-third of revenues and reduce the impact of market volatility between the different industries.

Acquiree is a limited company that also does service and project business in Europe. Acquiree's main business is in Finland and it also has business around Finland. The ten biggest customers comprise also almost two-thirds of its revenues and encompass the same advantages and disadvantages of big customers.

The Acquiree has struggled with profitability because of high fixed costs. The Acquiree's fixed costs have actually been at a moderate level but high in relation to revenues. In addition, the acquired company has had to sell the invoices to the bank to enhance cash flow and factoring has naturally weakened the profitability. Merging to the Acquirer will tackle these aforementioned issues and will create benefits for both companies.

Creating value for shareholders through mergers and acquisitions is one of the most difficult tasks in business management. The many difficult tasks have to be done in a short time during the integration. As a result, there may be uncertainty among employees and customers during the integration project. In the worst scenario, the most valuable employees and customers may leave from a newly combined company. Even if the worst-case scenario did not happen, research has found that expected synergies are still difficult to achieve completely.

The achieved synergies are a crucial part of successful acquisition and the synergies are the most potent source of value creation. Researchers (Gates & Very 2003) propose acquirers track value creation and leakage during the integration project. According to Gates & Very (2003), only 45% of acquirers had a formal plan or process for performance tracking and reporting activities during the integration process. Companies spend a lot of money and time for analyzing, valuing and negotiating with targets but tend to neglect integration planning and control.

The purpose of this study is to support the Acquirer in creating shareholder value through the M&A by achieving expected synergies. As we remember from an earlier chapter, the integration of two companies is a multi-stage process that consists of many different factors. The literature found many different aspects that effects acquisition performance. The literature has also identified that the success factors vary among acquisitions and every acquisition is unique. Therefore, it is impossible to create a generic measurement model for integration projects (Larsson & Finkelstein 1999).

This study tries to solve the problem by creating a construct that can also be considered a measurement model for the integration project. The objective of the construct is to provide clear information to the management during the integration. The measurement model will be built by using a constructive research approach. The research method will be presented next.

3.2 Constructive Research Approach

Constructive research is a qualitative research method and its aim is to solve real-world problems through the construction of models, diagrams and plans. Applied constructive methods are found in technical science, in clinical medicine and management accounting (Kasanen, Lukka, Siitonen 1993). For example, Balanced scorecard, Morse-alphabet and computer languages are the outputs of constructs at its purest. In medical science, a constructive research approach can be found in the production of new pharmaceuticals. Meanwhile, in management accounting, new budgeting systems provide concrete examples of managerial constructions.

Management accounting is typically cross-sectional research, time-series research or different case studies that give an in-depth analysis of a single organization at a single time. These three different research methods are typically

descriptive studies that explain the world. Kaplan 1998 asks why research wouldn't try to solve problems instead of reporting only the shortcomings. Kaplan (1998) argues that scholars could change organizational structures, information systems, incentive systems, and strategies by working with managers. For example, finance researchers have developed new financial instruments in cooperation with banks. Accordingly, Kasanen et al. (1993) argue that a constructive approach is used too scarcely in management accounting research.

When real-world problems are solved with managers by creating new models, someone may ask what distinguishes constructive research methods from consulting. The ultimate purpose of management accounting is to understand companies and the environment in which the company acts. Moreover, another task of management accounting is to develop management control systems (Salmi & Järvenpää, 2000). These tasks can be divided into two phases. The first phase consists of descriptive studies that were mentioned in the previous chapter. Despite the plentiful amount of descriptive studies in management accounting, it is a crucial part of creating new constructs for the encountered problem. The purpose of scientific research is to accumulate structured information in a verifiable way, based on previous knowledge. Constructive research does not make an exception here. New constructs cannot be built if the current management control systems have not been explained but new models must always be based on earlier observations, researches, and theories. This makes a significant distinction between consulting and constructive research. (Salmi & Järvenpää 2000)

Constructive research consists of six different phases that can vary between cases. (Kasanen et al. 1993)

1. Find a practically relevant problem
2. Obtain a general understanding of the topic
3. Innovate construct/solution to the problem
4. Demonstrate that solutions work
5. Show theoretical connections and contributions
6. Examine the scope of applicability

The phases can be roughly divided into two parts. First, the new solution for the problem is innovated and secondly, the new construct and its applicability are examined by researchers.

The innovation phase is at the core of constructive research, because if the researcher is not able to produce a new solution for the problem, then there is no obvious point to continue the study. Despite the importance of the innovation phase in constructive research, the newly developed construct has to be built on earlier theories and research. This is still not enough, for market tests have to be done to test the actual usefulness of the construct.

Kasanen et al. (1993) emphasize that the actual usefulness of a managerial construction is never proved before a practical test is passed. He presents three different market tests to assess the construct. The weak market test is passed if some manager responsible for financial results has been willing to ap-

ply the construction in question in his or her decision making. The weak market test is quite strict, and it should be noted that a tentative construction may not pass the test. The semi-strong market test is passed if the construction has become widely adopted by companies and the strong market test is passed if the application of the construction has significantly improved financial results compared to those companies who have not applied the construction. The question of whether the construction passes a semi- or strong market test must be researched by traditional accounting research which requires statistical analysis and lots of data.

Rautiainen, Sippola, Mättö (2017) criticize evaluating the success or validity of construction by market tests because it is not clear what constitutes usefulness or working in practice. The use of construction may be a problematic measure of success because the adoption of the construction does not actually measure its qualities. They suggest that constructions should be analyzed from a relevance perspective. Relevance can be defined as something that is of significance for something else, relevance is often connected with values and usefulness.

Rautiainen et al (2017) identify four aspects of relevance from the extant research which exist in two dimensions: value and decision level. The value aspect can be divided into academic value relevance and practical value relevance. The construction has practical value if it produces financial long-term relevance and academic value if it contributes to new knowledge. Decision relevance has two perspectives. One emphasizes instrumental decision relevance and another legitimative decision relevance.

As a result, Rautiainen et al. (2017) propose Relevance Diamond to assess the relevance of the construction where the value of construction can be assessed vertically and the decision relevance of the construction horizontally.

All in all, constructive research is solving problems with managers through innovating new models for the problems. The construct must always be based on previous theory and research. After the model has been created, the researcher has to accumulate knowledge by doing market tests or assess the relevance of the construct and thus reflect back on literature.

3.3 Research Project

The measurement model was built according to constructive research methods. In the first phase the research problem was identified and the researcher discussed with the Acquirer about the research. Head of integration manager and Head of HR represented the Acquirer in the research design discussions. The discussions took place in Spring 2019. After the first discussion of the research problem with the Acquirer, one discussion took place at the University of Jyväskylä. A professor of accounting participated in the design at the beginning of the study at university.

In the next phase, the researcher read lots of previous studies and theories to obtain information on M&As and performance management of integration projects. Based on earlier information on the topic, the new measurement model for the integration project was built in cooperation with the Acquirer's management board. Constructing the model required many different discussions with the management board of the Acquirer. No one was representing the Acquiree because the acquisition needed acceptance from competition authorities, and pending their approval, parties were not allowed to converse with each other. During the constructing phase, the acquisition was under Finland's competition authority's scope.

Many discussions took place in the summer of 2019. The Acquirer's management board experience was utilized in the construction of the measurement model and the discussions focused on one topic.

In the first phase of constructing the measurement model, the Acquirer's strategic objectives were presented to the researchers. These objectives set a framework for the measurement and are at the core of measuring. The objectives also determine the success factors of the integration project. Head of division and head of development attended the discussion with the researchers.

In the next meeting, the success factors of the integration project were discussed with the Head of Division from the Acquirer's perspective. The conversation was also kept with Head of Region. The purpose of the meeting was to discuss about the measures from practical perspectives. The Acquirer is a large company that has lots of different information systems. It set some requirements for measures, if the measures are desired to run in an efficient way. Business measurement was also discussed at the meeting. Head of Region is responsible for running a profitable business in the Acquirer's organization.

Based on these discussions, the first measures were set for the integration project and represented to Head of Development in July 2019. The first draft of the measurement model was complemented later by utilizing the experience of Head of Sales and HR. They brought customer and employee perspectives to the measurement model. In the August 2019 improved version of the measurement model was constructed for the integration project.

The table below summarizes the progress of research. In addition to these discussions, there were also numerous small discussions at the Acquirer's headquarters. The researcher was working at the premises of Acquirer, which allowed access to a wealth of specific information on the integration project. All discussions took place at the Acquirer's headquarter with the exception of the discussion with Head of Development and Professor of Accounting. This was held at the University of Jyväskylä.

Date	Participants	Focus
April 2019	Head of Development, Head of Human Resources	Research problem and the design of the study
May 2019	Head of Development, Professor of accounting	Research problem and the design of the study
June	Head of Development,	the Acquirer's strategic objectives of

2019	Head of Division	the acquisition
June 2019	Head of Division	The success factors of the integration project
July 2019	Head of Region	Measures from a practical perspective, measuring business performance
July 2019	Head of Development	The measures for the integration project
July 2019	Head of Sales	Customer perspective in the integration project
August 2019	Head of HR, HR-Manager	Human perspective in the integration project
August 2019	Head of Development	The final measurement model for the integration project

Table 1 The interviews in the research project

4 CONSTRUCTION OF NEW MEASUREMENT MODEL

One of the main goals of public limited companies is to increase shareholder value. The investors expect stable cash flow combined with increasing dividends. The shareholder value can be increased by acquisitions in two different ways. In the first, value is captured immediately to shareholders if the acquired company's Earnings Value to Earnings Before Interests and Depreciation and Appreciations (EV/EBITDA) ratio is lower than the acquirer's EV/EBITDA ratio.

In this master thesis the second way to increase shareholder value is within the scope. Shareholder value can be created through resource-sharing, which was one of the four ways to create value through M&A (Haspeslagh & Jemison 1991, 29). Shareholder value cannot be created without cost-cuts and cost-cutting requires various mandatory actions.

Although cost-cuts are key actions to achieve synergy, they contain a risk of violating business performance. Shareholder value will not be created if costs are cut but business performance decreases. During the integration, the business performance has to be at least at the same level as before the integration. Therefore, business performance must also be measured. These two issues are at the core of the M&A success and are two main objectives that lead to a successful acquisition. The achievement of these objectives requires many different actions that are caused by many different factors. Therefore, these objectives must be further subdivided. In any case, the measurement system will be built based on these two objectives.

4.1 Objectives and Key Results of M&A Case

The main motives of the merger are enhancing administration efficiency to run the business more efficiently with lower fixed costs. The second reason is to spread customer-based risk by implementing a wider customer portfolio and using employees in a more efficient way. These motives are at the core of the case company's business strategy and the overall objective aims to increase shareholder value.

As we recall from the theory chapter, the degree of synergy realization is associated with the success of whole acquisition (Larsson & Finkelstein 1999, Fiorentino & Garzella 2014). In this acquisition, annual synergy was assessed before the acquisition and these goals yield guidelines for synergy management. The Acquiree was acquired in a specific EV/EBITDA multiple and therefore synergies play a crucial role in the success of the acquisition. If the synergies are fully achieved, they would halve the EV/EBITDA multiple. Therefore, realizing expected synergy is a crucial part of the success of the acquisition.

The degree of synergy realization is a key result of the whole acquisition performance and it determines a lot the success of the acquisition. Naturally, it is a suitable measure to define the whole acquisition success. It will be measured by the degree of synergy realization (RS) where the degree of synergy is a percentage of synergies achieved in relation to expected synergy. Expected synergy (ES) is the potential synergy after integration costs (IC). $ES = PS - IC$. (Garzella & Fiorentino 2014) The measure will be the ratio of realized synergy and expected synergy which will be measured as follows: RS / ES .

Researchers (Garzella & Fiorentino 2014) suggested companies identify where the synergy arises. In this case, synergy is expected to arise from personnel reductions, it-systems, overlapping premises and fleet. The same equation which was presented is also used in those areas. As a result, the case company measures the overall degree of synergy realization and the degree of synergy in reductions, it-systems, premises and fleet. The synergy will be measured each year separately, because synergy is expected to be achieved by degrees over the next three years

In this case the synergy appears only from cost-savings when the overlapping functions are eliminated. Synergy from cost-savings is easier to estimate and achieve than softer synergy from revenue enhancements (Eccles et al 1999).

Although the synergy is easier to achieve through cost-cuts, the case company has to pay attention to the business performance during the integration process. Value cannot be created for the shareholders only through cost-cuts if the business cannot be run as efficiently as earlier. Haspeslagh & Jemison (1986) warned managers to capture short-term value instead of creating value in the long-term. Shareholders will not benefit in the long term if the costs are cut in the short-term to achieve synergies at the expense of long-term business performance. Therefore, it is crucial to run the business efficiently despite cost-cuts and integration actions.

Birkinshaw et al. (2000) emphasize the importance of both task integration and human integration where the successful acquisition is the sum of a high-level completion of both human and task integration. If the companies are integrated only at task-level where the overlapping functions are eliminated, it will achieve synergies in the short-term, but if it happens at the expense of employees it will violate business performance in the long-term. In the service industry, key personnel are one of the most valuable assets. On the other hand, if the firms are integrated only at the human-level, operational synergies are not achieved, and the acquisition will not strengthen the competitive advantage.

If the Acquirer is able to achieve synergies and maintain business profitability, the M&A will be successful and improve the competitive advantage and enable it to make a profitable business in the future. These two issues are sub-objectives for the successful acquisition. Other measures are derived from these sub-objectives: The table below summarizes the objectives:

<p>Objective: Increase shareholder value through successful M&A</p>
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Key results:

1. Realize expected synergies
2. Run business more efficient due to the merger

Table 2 The Acquirer's main objective of the acquisition

The degree of synergy realization and the EBITDA-level are the key result indicators that support the main objective. These measures are critical in the success of the whole acquisition and therefore the measures are key result indicators (KRI). KRIs are financial measures that measure past performance, but these financial measures do not support daily information on how progress toward the goals is performing. One year after the merger, it will not be useful to report to the group management board that the degree of synergy was lower than expected when nothing can be done anymore. Therefore, both of these key results also non-financial measures are needed to ensure objective achievement.

According to researchers, the integration is widely recognized as the most important predictor of synergy realization (Barkema & Schijven 2008, Larsson & Finkelstein 1999) and it is also identified as the primary source of value creation in acquisitions. (Barkema & Schijven 2008, Zhang et al. 2015, Angwin & Meadows 2015, Larsson & Finkelstein 1999). Because earlier studies have found integration to be one of the most important parts of the acquisition success, it will be examined more closely. Synergy realization and running a business more efficiently need deeper and more detailed non-financial measures so that management is able to react to the bottlenecks before the problems expand and destroy value.

4.2 Performance Measurement in the Integration Project

In the theory chapter, different integration strategies were presented. The acquirer can adjust the level of organizational autonomy or the level of strategic interdependence. These dimensions define three different strategies that have their own characteristics (Haspeslagh & Jemison 1991). Pablo (1994) defined three different strategies for integration based on the degree of changes made in the integration process.

In this case, the acquired company will be fully integrated into the acquirer. The integration strategy is Absorption where an acquirer takes full control of an acquired company. In this case, the level of autonomy is low at the acquired company and the need for strategic interdependence is high. As was written in the theory chapter, three types of capability transfer were identified – resource sharing, functional skill transfer and general management skill transfer. In this case the value will be created through capability transfer where the most potent source of value creation comes from resource sharing.

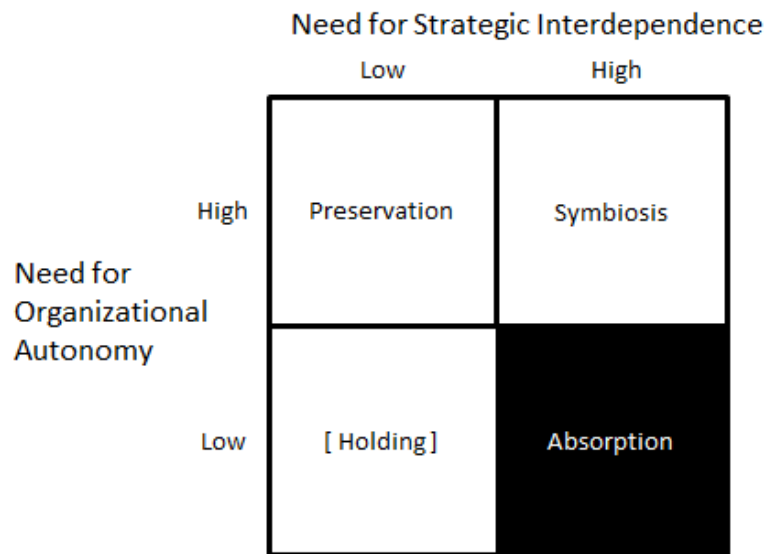


Figure 5 The integration strategy for the integration project

According to the literature and researchers, the measures of the integration process can be derived from the overall goals of the acquisition (Katramo et al 2013, 480-483). In the M&A context, Gates & Very (2003) suggested acquirers first identify a value creation scenario and then derive the measures from the value drivers.

The measures to the integration project will be derived from the two key results that were presented in the previous chapter. Despite the fact that the most potential source of synergy arises from resource sharing where the overlapping functions are eliminated, the functional skill transfer should not be forgotten. Studies have emphasized the importance of learning during the integration project (Gates & Very 2003). Business cannot be improved in the most efficient way if the acquirer forces the acquired company to implement its procedures.

The acquisition will be successful if the expected synergy is achieved, because it allows reducing fixed costs and doing more profitable business. There are still risks that cost-cuts will violate business performance, so cost-cuts alone do not ensure the success of acquisition; the business also has to be running at the same level as before the merger. In fact, M&A should improve business performance due to the merger so also functional skill transfer is needed to succeed. The success of these sub-goals depends on the integration performance and the integration process has to be considered at a more detailed level.

The first key result is to complete a successful integration and achieve expected synergies. It will be measured by the degree of synergy realization. Synergy realization alone cannot be measured because it is only a financial result which tells past performance. Also, other measures are needed along with the degree of synergy realization.

The integration is a large project which has lots of different tasks, because the Acquiree will be fully integrated into the Acquirer and the integration will be completed on a fast schedule. Therefore, integration has to be divided into several parts and must focus on measuring key activities that lead to successful integration and synergy realization.

The integration project consists of ten sub-streams. According to Zollo & Meier (2008), task performance positively influences the overall acquisition performance and is therefore an important part of the whole acquisition. In their study (2008), the task is defined in the same way as the sub-stream in this case.

The sub-streams in this case are Organization, Structure, Legal & Documents, Finance & Admin, IT & Systems, Personnel, HSEQ (health, safety, environment and quality), Communication and Brand, Customers and Offering and finally Leases and Premises. Each stream has a manager and team members who are responsible for the tasks included in the stream. Each stream also has an objective and a schedule to complete tasks. Some of the tasks have a tight schedule whereas some tasks can be done in the long-term. Some streams emphasize the importance of synergy realization whereas other streams highlight the importance of a warm atmosphere. On the other hand, there are also lots of obligatory tasks that have to be done to run the business formally in a new structure. Therefore, sub-streams are further divided into three different parts; Admin streams, Synergy streams and Human streams. Each of these three parts has one shared objective and together they attempt to achieve the objective.

According to Doerr (2018) and Niven & Lamorte (2016), OKR should be vertically and horizontally connected to each other to avoid situations where some streams are celebrating goal achievement at the cost of another team. It also gives a more comprehensive view of performance to the management group when streams have shared OKRs.

The Synergy streams aim toward synergy realization where overlapping functions will be first identified and then terminated. Organization, Leases & Premises, IT and HSEQ belong to the synergy streams. Literature (Birkinshaw et al. 2000) separated the integration projects into task integration and human integration where the best result comes from the combined success of human and task integration. The synergy stream assignments are mostly related to the tasks that have to be done to achieve synergies. If these tasks are not done, planned synergies are never achieved.

In addition to the synergy stream and task integration, there is also lots of obligatory work related to the merger and new company structure. The stream is named Admin stream and it consists of Structure, Finance and Admin and Legal and Document streams. The tasks included in these streams relate to the formal and administrative aspects that are required for running the business formally and in a legally correct manner.

Despite the importance of successful task integration, human integration cannot be forgotten in the integration project. The human stream consists of Personnel, Customers and Communication and Brand stream. The main goal of these streams is to create a warm atmosphere that enables the humans to make a profitable business in the long-term. A warm atmosphere is especially high-

lighted to adopt best practices from both parties. There is a risk that some strength may be lost if the Acquirer forces the Acquiree to implement its procedure or vice versa. It is important to learn from each other and adapt the best practices to achieve the best result of M&A.

Each stream has one qualitative defined objective. The stream objective is a goal which describes what is desired to achieve. The key results are specific numbers that show whether the objective is achieved. The figure below describes the streams and objectives:

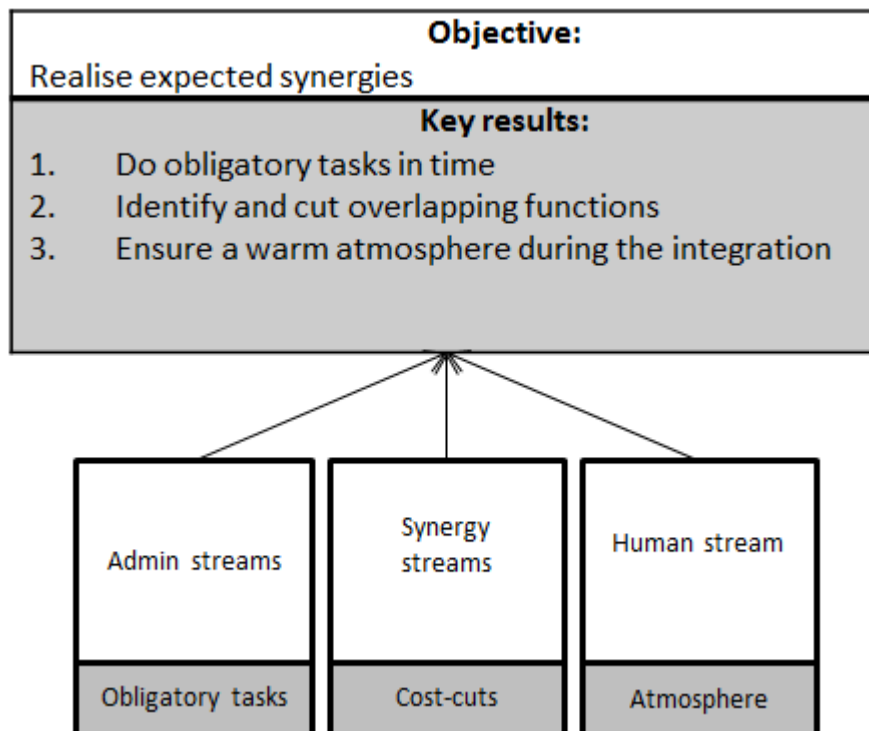


Figure 6 OKR-framework for the integration project measurement

In the following chapter, each stream will be examined. First the streams are presented at a deeper level and then the objectives and key results of each stream are proposed.

4.2.1 Synergy Streams:

Organization:

The organization stream is responsible for creating a geographically oriented competitive organization that can serve customers in the area efficiently. The new organization has to be rebuilt based on two previously independent companies. The division CEO is responsible for the success of this stream. Division Vice President and division HR-manager also belong to the stream. According to Larsson 1999 study, the organizational integration does positively influence the synergy realization. The result was highly significant. In their

study, organizational integration was defined as the degree of interaction and coordination between the two firms involved in a M&A.

At first a temporary organization will be built and while the temporary organization is in place, the final organization will be decided and implemented. Many different tasks must be done to complete a new organization. Therefore, the stream has listed activities and a schedule for the project. The new organization requires that all activities in the schedule have been completed. The first key result that supports the objective achievement is to complete all tasks in the first 100 days.

A lean and competitive organization also requires that various jobs have to be restructured. The Acquiree and the Acquirer have had their own organizations with their own support functions such as marketing, payroll services, IT and accounting services. In the new organization, support functions can be restructured which leads to job terminations. Before the acquisition, the Acquirer has estimated the savings from shared support functions and these savings are monitored during the integration. There are not straight euro-metric goals for the cost-savings, but the goal is to make a more efficient organization that can work more efficiently together than apart. However, a more competitive organization should be seen as lower fixed costs in relation to revenues. This is the final key result that supports the stream objective.

IT & Systems:

IT & Systems stream is also one of the key streams in the integration process. Acquiree's IT & systems will be fully integrated into the Acquirer's systems during the first six months. A tight schedule with several time-consuming tasks makes this stream one of the most challenging parts of the integration project. The stream is managed by the Head of Integration project with IT manager and IT specialist.

IT & Systems stream consists of several different parts: operative management tool, office tools, IT-infrastructure and the ERP-system which is a backbone for the whole business. The operative management tool is an IT-system that helps employees work. Employees are able to log work hours, save documents and manage a calendar on the system. The merged companies use different operative field management tools and ERP-system. The Acquiree will begin using Acquirer's operative field management tool and its ERP-system. It is a difficult and resource-consuming operation to implement Acquirer's systems into Acquiree's use. Despite the applicability of the Acquirer's different IT-Systems, Acquiree's personnel has to learn to use the new systems. Therefore, all new employees need to be trained to use these IT-systems. The goal is that new employees are trained during the first 100 days, and this is the first key result of the stream.

The ERP-system is a backbone for the whole business, which gathers information from different systems to the ERP-system. The Acquiree's ERP-system will be terminated due to the merger and the new ERP-system will be rebuilt based on the Acquirer's old system. Synergy arises from a shared ERP-

system and a shared operative management tool, because both parties are able to use one system that can be run in a more cost-efficient way. Closed systems will create a significant amount of synergy. Therefore, the second key result is twofold. In the first phase the unnecessary IT-systems have to be identified and then terminated. The Acquirer has set targets for savings before the acquisition and the savings are tracked monthly during the integration. Naturally the goal is that all planned cost-savings from IT and systems are able to be achieved.

Acquiree's employees must also start using the case company's office tools. The e-mail addresses will be changed, and mobile devices and subscriptions will be transferred under the acquirer's agreements. This is still not sufficient; GDPR-related items must also be integrated under the acquirer's practices, principles and policies. In addition to these activities, there is much other work to do. IT stream has listed all activities and the completion rates of these tasks are also monitored. The goal is that over 90% of activities are completed during the first 100 days. This goal is in line with the literature.

The literature (Katramo et al. 2013) suggests that the biggest decisions and changes should be done during the first 100 days. It reduces instability and uncertainty among the employees. The volume of the changes started in the first 100 days is associated with perceptions of success in M&A (Angwin 2004). The goal is that the IT integration is complete within six months of the agreement. Ultimately the IT costs should be brought to the Acquirer's IT cost level. It summarizes the success of synergy achievement in the IT-stream and is therefore an important key result indicator.

Procurement, Leases and Premises:

Procurement, leases and premises (PLP) are managed by Head of integration management, and two procurement managers also belong to the team. The tasks included in PLP during the integration project are more simple and straightforward compared to IT & System stream. The main goal of the stream is to optimize the number of premises and cars by locations. Both parties in the M&A run the business over a wide area in Finland and there will be many locations where both parties lease their own premises. In these situations, overlapping functions must first be identified and then terminated. Moreover, in some locations, service vans can also be shared, and the number of service vans can be reduced due to the merger.

At the beginning of the integration, every physical location and car has to be evaluated to determine whether it is needed in order to optimize the number of premises and fleet by locations. The merger will cause redundancy in cars and offices and these redundant lease contracts must be terminated. Both of these activities will be monitored during the integration project. Along with IT stream, PLP also offers synergy that has to be followed up.

Alongside the synergies, the contract renewal creates work that has to be completed. Both parties have many different contracts that are necessary to run a business. These contracts have to be harmonized during the first 100 days. The completion rates of tasks are also monitored during the integration.

HSEQ:

The abbreviation HSEQ comes from the words *health, safety, environment* and *quality*. The division HR manager is responsible for the success of this stream. The development manager and HSE manager are also members of the stream. The main objective of the stream is to combine best practices and create a safe working environment for employees.

Although the stream includes health, environment and quality aspects; the stream highlights the importance of the safety aspect. Safety is one of the most important factors in the whole company. Therefore, safety is measured by the lost time injury frequency rate (LTIFR) during the integration project. LTIFR is calculated as the number of lost time injuries occurring in a workplace per one million hours worked.

HSEQ stream does not directly give rise to synergy that affects the profitability, but the success of HSEQ integration is crucial. The Acquirer has developed its safety processes for many years to lower LTIFR. In addition to safety being one of the key values for the Acquirer, injuries create a lot of extra work such as extra communication and re-organization of work that ultimately leads to a decline in profitability.

The Acquiree has also developed its safety procedures for years and the main challenge of the integration is to adopt best practices from both parties to lower LTIFR. In the worst-case scenario, the integration creates chaos that leads to increasing numbers of injuries. In the best-case scenario, both parties can learn from each other and adapt the best practices and, as a result, lost-time injuries will decrease. The latter is naturally the goal of the stream. The goal is supported by measuring the number of safety observations. Another goal is that both parties find over ten better ways to work during the integration.

Literature (Larsson & Finkelstein 1999), emphasized the importance of learning in the capability-transfer stage where the best practices are adopted. This stream is a great example of the capability-transfer stage, where great safety procedures should be brought into use instead of being adapted straight to another's procedures. It requires a safe and warm atmosphere, where employees feel safety and certainty to work. Therefore, the success of human integration is also needed to transfer capabilities and to run the business despite the cost cuts. The human stream is presented in the following chapter. Before that, objectives and key results in the business stream are presented in the following table.

Synergy Streams	
Objectives:	Key results:
Realize expected synergies	1. Achieve annual synergy EUR X

<p>Organization:</p> <ol style="list-style-type: none"> 1. Create a lean and geographical oriented organizational structure 	<ol style="list-style-type: none"> 1. All tasks are done in the first 100 days 2. Cost savings - EUR X annually from personnel costs 3. Lower fixed costs in relative to revenues than before the merger
<p>IT:</p> <ol style="list-style-type: none"> 1. Acquirer's ERP and infra solutions in an efficient and supportive way in use during the first 100 days 	<ol style="list-style-type: none"> 1. Learning rate of new ERP-system 100% in the first 100 days 2. Identify EUR X of unnecessary IT-systems 3. Planned cost savings from closed IT-systems EUR X annually 4. It-infra and office tools in use during the first 100 days of all employees (90% tasks done in the first 100 days) 5. IT-costs leveled off on buyer's IT-cost level (X% of fixed costs)
<p>PLP:</p> <ol style="list-style-type: none"> 1. Procurement, leases and premises support the business and enable to make a profitability business 	<ol style="list-style-type: none"> 1. Identify contracts and useless premises and service vans EUR X annually 2. Cost savings from closed premises EUR X annually 3. Cost savings from service vans and workwear EUR X annually 4. Harmonize contracts in the first 100 days (X % of contracts harmonized) 5. All tasks are done in the first 100 days (100% completion rate of tasks)
<p>HSEQ</p> <ol style="list-style-type: none"> 1. Adapt best working practices to create a safe environment for working 	<ol style="list-style-type: none"> 1. LTIFR long-term incidents frequency rate below 4 2. Safety E-learning rate of 100% in the first 100 days 3. A quality management system designed 4. Safety observations X / annually 5. Identify over 10 better working

	practices
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Table 3 Objectives and key results for synergy streams

4.2.2 Human Streams:

Personnel:

The personnel stream has a clear objective: to secure a smooth transition to a new company. It requires that key people are not leaving the company due to the merger. The stream is also responsible for the integration of HR-processes and principles such as payroll and employment contracts. The stream is led by the HR manager and other HR employees belong to the stream. Personnel integration can be considered unsuccessful if the key employees leave the company due to the merger.

According to Haspeslagh & Jemison (1991), the Acquirer has to pay special attention to the interaction between two companies to create an atmosphere that is needed to achieve expected synergies. Gates & Very (2003) also emphasize the importance of a warm atmosphere during the first 100 days. The stream objective is in line with the literature.

Employees' satisfaction will be measured monthly. The goal of satisfaction measurement is to get information from employees during the integration project. As has been written in this study, integration can create different problems that can further lead to employees' exits. The Acquirer does not want key employees to leave due to the merger. Monitoring satisfaction on a monthly basis allows keeping track of the changes in work satisfaction among the employees which further enables identifying and solving problems before they cause problems such as key employees leaving. The transition is smooth if no key employee leaves the company during the integration.

The other part of this stream is to integrate HR processes and payroll in cooperation with organization and finance stream. These are more formal actions that have to be done to ensure the working environment. The completion of these tasks is also monitored in the schedule. All tasks should be done in the first 100 days.

Communication and Brand:

The communication and brand stream is managed by the division marketing manager. The marketing manager has a wide team that consists of com-

munication and marketing employees in the group. As the stream name suggests, the stream is divided into two parts. The purpose of communication is to share information with stakeholders such as employees, customers, suppliers and shareholders. The goal is to keep them up to date and reduce uncertainty and tackle rumors. Literature has also identified communication as one of the key factors for successful integration (Katramo et al. 2013, 483). Communication consists of different tasks that support the success of the integration process.

The second part of the stream is also important for the success of the integration project. The main objective of the brand aspect is to integrate all activities under the same brand. The brand aspect can further be divided into several parts. For example, cars have to be re-designed, and working clothes have to be reformed. At the same time offices and brand supplies such as ID cards and business cards have to be integrated into the acquirer's supplies. Social media and web are also one field where integration actions have to be taken. These tasks are tracked and measured weekly. In this stream as well, all tasks have to be completed during the first 100 days.

Customers and Offering:

The main goal of the Customers and Offering stream is to maintain good relationships with customers during the integration project. The stream is led by the Head of Sales and other sales personnel also belong to the stream.

The stream has the difficult job of maintaining current customer relationships and harmonizing the customer contracts at the same price level as before the acquisition. There is also a risk of customer loss during the integration project. Cost-cuts and synergy achievement do not matter if profitable customers are lost. Therefore, the customer and offering stream plays an important role in the integration project.

Customer satisfaction will be monitored monthly during the integration to pinpoint problems earlier and solve them early. It will be measured by a simple questionnaire where the customers are asked to answer a few questions.

Along with customer satisfaction, the accounts receivable turnover rate is also an important indicator of customer success. Accounts receivable turnover tells the number of times per year a company is able to collect its accounts receivables. It is counted by the ratio of annual sales and accounts receivable. A high ratio means that customers pay their debts quickly. A low ratio may indicate different problems in business. Customers can refuse to pay the company if they have encountered problems and are not satisfied with the service they have purchased. Therefore, accounts receivable turnover is also an important measure of Customer and Offering stream.

The M&A enables the widening of common product and service portfolio. Both parties have strengths and weaknesses in certain business and industrial areas. The integration enables complementing missing parts of the current portfolio. This phenomenon is called revenue synergies or soft synergies that were mentioned in the theory chapter. Despite the fact that revenue synergies are difficult to calculate and these soft synergies are missing in the synergy cal-

culations these will be monitored during the integration by measuring the orders in the key market areas and in the key customers. Adding the Acquirer and the Acquiree revenues together tells the basic level of revenues, but if the revenues by key customers or key market areas can be improved after the integration, soft synergy due to the merger is achieved. Naturally, the goal is to improve revenues from customers due to the merger. It is a sign of a more attractive offering and it shows how the customer relationship was managed during the integration project.

The table below summarizes the objectives and key results of the human integration part.

Human Streams	
Objectives	Key results
Ensure a warm atmosphere during the integration	<ol style="list-style-type: none"> 1. No key personnel leave due to the merger 2. Profitable customer retention 100%
Personnel: <ol style="list-style-type: none"> 1. Secure smooth transition and a warm atmosphere in the new company 	<ol style="list-style-type: none"> 1. Employee satisfaction > 4 during the integration 2. Key employee retention during the merger 100 % 3. All HR-tasks are done in first 100 days
Communication and Brand: <ol style="list-style-type: none"> 1. Support other streams by spreading information and creating an attractive brand 	<ol style="list-style-type: none"> 1. Engaged to key results of personnel, customer and organization streams 2. 90% of the tasks done in the first 100 days
Customers and offering: <ol style="list-style-type: none"> 1. Secure smooth transition and create a more attractive offering 	<ol style="list-style-type: none"> 1. Customer satisfaction at a high-level 2. Key customer retention 100% 3. Accounts receivable turnover ratio higher than before the merger 4. Revenue improvement by 10%

Table 4 Objectives and key results for human streams

4.2.3 Administration Streams:

Structure:

The division CEO is responsible for the structure during the merger. Head of Legal and Head of Finance support him in the integration project. This stream is driven by the stream objective – all the business must be operated in one company. The Organization stream is responsible for the reorganization of the newly combined company in practice, while the Structure stream is responsible for formal restructuring. For example, changes in the formal structure and the official roles have to be appointed to the Finnish Trade Register. In addition to these reporting activities, there may be some potential to exploit tax benefits from the earlier company structures. Possible tax benefits have to be analyzed and utilized efficiently.

The success in the Structure stream is only monitored on the task level. The stream has listed all jobs and tasks that have to be done to run the new business formally in a correct manner. The progress of the stream is monitored monthly.

Legal & Documents:

Legal & Documents integration is naturally managed by Head of Legal. The legal employees at the Acquirer and Acquiree organizations are available to support the success of Legal & Document integration.

The Acquiree is a limited company while the Acquirer is a public limited company. The Acquirer has its own guidelines that fulfill the demands of public listed companies. Therefore, the Acquiree needs to adapt the Acquirer's guidelines such as ethics, governance and ways of working. The legal stream has to ensure that the employees of the Acquiree understand the case company's code of conduct, the framework of guidelines and insider policies with an internal control to avoid the risk of abuses and omissions. The Acquirer's code of conduct, guidelines and ways of working will be presented with various videos to the personnel of the Acquiree. The most important issues have been filmed and saved on the internal websites and constitute an e-learning portal. During the integration project, e-learning training participation is tracked and the goal is that all employees will have successfully finished e-learning training during the first 100 days.

The other part of the stream is document management. In a large company the documents have to be managed consistently so that all employees are able to find the right documents. Documents consist of contracts, notes, receipts and other information that has to be preserved. Both parties may have different procedures for document management, and it may create challenges to consolidate the procedures.

The second main goal of the legal & document stream is to ensure that document management is done in a consistent way after the M&A. Nobody wants a situation in which crucial documents are missing or difficult to locate.

It is also important that the Acquirer does not force the Acquiree to adapt its document management procedures. Instead, it is important to adapt the best practices from both parties because both parties have their own excellent and poor procedures to manage documents. Therefore, the number of great

ideas to improve document management is also tracked during the integration project.

Finance & Admin:

Finance integration is one of the most resource-consuming parts of the integration. The Acquiree is a listed company while the Acquirer is a public listed company. The Acquirer must follow international financial reporting standards and report regularly to the stakeholders that set requirements for internal principles in accounting and reporting while the Acquiree has had softer requirements for financial reporting. The Acquiree has also adhered to Finnish reporting standards. The main objective of this stream is to integrate Acquiree's financial reporting under Acquirer's principles in budgeting, forecasting and reporting. The stream is managed by Head of Finance and the finance employees in the division and the group will help in the financial integration.

The finance stream is further divided into eight sub-streams which consist of different sectors of accounting and finance such as financial reporting, budgeting, forecasting and financial platforms. These sub-streams are not necessary to present in greater depth. The sub-streams have their own tasks that have to be done to integrate financial systems. The completion rate of tasks is tracked during the integration in the finance stream.

Admin Streams	
Objectives	Key results
Do obligatory tasks on time	Over 90 % of tasks done in the first 100 days
Structure 1. Legal company structure supports business objectives	1. All tasks are done in the first 100 days
Legal & Documents 1. Acquiree's personnel works according to buyer's code of conduct and other governance 2. Parties' document management procedures organized in a structured and sustainable way	1. Code of conduct e-learning training session participation rate 100% 2. Identify 10 great procedures to improve document management
Finance & Admin 1. Acquiree operates under case company principles in budgeting, forecasting and reporting	1. All tasks are done in the first 100 days

Table 5 Objectives and key results for admin streams

4.3 Business Performance:

The integration was divided into ten streams where each stream had its own objectives. Objectives were based on the integration project and the key results show whether the objective had been achieved or not. Tracking the integration project alone is not enough to ensure that the strategic goals of the acquisition have been achieved. The purpose of measurement of business performance is to ensure success in the long-term while the integration project performance focused on synergy achievement in the short-term.

In addition to synergy realization, running the business as efficiently as before the merger is at least as important as achieving synergies. Lots of changes have to be made during the integration project and there is a risk that they will have negative effects on business profitability. Shareholder value will not be increased if the business profitability suffers due to the merger. The risk of destroying value exists if the Acquirer focuses too much on cost-cutting. The Acquirer has to find a balance between cost-cuts and business performance where the overlapping functions are eliminated but the business can still be run efficiently. There is also a need for measures that tell about business profitability.

Literature suggests finding a balance between measures that lead to a profitable business. Gates & Very (2003) suggested acquirers identifying sources of value creation and measure these factors. Kaplan & Norton (2000) suggest drawing a strategy map to show how intangible assets can be converted to tangible assets through crucial drivers that drive the performance.

These measures will constitute a business OKR framework. The business OKR summarizes the information in one sheet. It will be structured to show relationships between the measures in order to show the management board how progress is being made towards achieving the strategic objectives.

The main objective of business OKR is to improve profitability during the integration project. There are lots of studies that show how M&As have weakened profitability and shareholder value has been destroyed as a result of the acquisition. This dilemma must definitely be avoided.

The business OKR will be built by using the BSC-framework. It consists of financial, customer, internal and learning and growth perspectives. Nevertheless, the Business OKR will still have one qualitative objective that is explained by key results. The financial results show whether the objective is achieved or not and the other perspectives show how the financial results have been constituted. BSC framework is used because it shows the relationships between measures and summarizes the information. The Business OKR contains many measures similar to the measurement model of the integration project but it focuses on long-term performance and simplifies the measurement.

4.3.1 Financial:

Business success can usually be seen in financial figures. The Acquirer has set a strict goal to improve its cash flows. In addition to this, it has set a goal to improve its relative EBITDA margin. To fulfill these objectives, synergies have to be achieved and profitability has to be improved. Synergies are measured by the degree of synergy realization and the level of euros. Although it is one measure of the integration success, it is also followed up here.

As was mentioned earlier, it is not enough to achieve synergies, but the business must also be run at the same level as before the merger. Gross-margin is a great measure to indicate operational business performance. The more extra work, re-organization and chaos due to integration, the lower the EBITDA-margin will be. The integration will cause extra work and confusion and it is important to have information about the gross-margin level during the integration. The goal is that the gross-margin level can be improved due to the merger.

Cash flow is the third important measure of success. Profitability margins are at a low-level in the service business, because the business does not require capital. It enables running a business with negative working capital which means that capital is not engaged in business processes. The market value of a public listed company is usually constituted by the discounted future cash flows. Public listed companies usually share dividends from free cash flows. In the service business the amount of free cash flow is very important because it allows sharing more dividends for shareholders.

The gross-margin level and the ratio of accounts receivable also directly affect cash flow and thus also tell about operational business performance.

4.3.2 Customers:

As we know from the theory chapter, the literature has consensus on the fact that there is a need for non-financial measures in addition to financial measures. The financial measures are historic-based, and the management should have information on key parameters that determine the financial results. Therefore, the business OKR has three other perspectives that support the financial perspective.

Customer perspective measures are mainly historic-based financial measures but still they are important measures that show the success in customers. Customer retention is crucial for the acquisition success and before the acquisition, customer relationships were assessed one of the most valuable assets.

If many different problems occur during the integration, there may be a risk that the Acquirer fails to provide value to the customers and as a result customers can change partners. If the orders and revenues decrease, it may be a sign of problems occurred with the customers. In theory, the orders and revenues should at least be maintained at the same level or even increase due to the complement products and services. If the management is aware of a decline in revenues and orders, they can react to the problems and try to solve them in co-

operation with employees to reduce loss of key customers. Therefore, the orders and revenues are measured monthly during the integration project.

Also, other measures such as customer satisfaction and customers' credit terms are also tracked in the Business OKR.

4.3.3 Internal:

The internal perspective consists of two different parts. First, the integration progress is measured by costs and time. It is important to stay on budget and on schedule. Every stream had objectives and key results that were presented in the previous chapter, but the streams also have a task list where the tasks related to the integration projects are listed. The completion rate of tasks is monitored during the integration to get information on how integration between companies progress. At the same time, costs are monitored.

The second part focuses on the efficiency aspect. Efficiency is measured by unallocated working hours. A decrease in efficiency directly affects the profitability level and is thus an important measure. The Acquiree will be fully integrated into the Acquirer where the new organization structure is created. It can cause confusion which can further lead to inefficiency. The ratio of white-collars to blue collars is also tracked during the integration. In the service business, efficiency consists of high use of capacity. The higher billable work and less waste-hours, the more profitable the business is.

4.3.4 Organizational and Growth

The last perspective focuses on two issues. Employee retention during the integration is crucial and the Acquirer has set an objective that no key employees leave due to the merger. The high churn in employees causes extra costs and violates value creation to the customers. In addition, new employees may also be difficult to find. Employee satisfaction will be tracked monthly by asking employees to answer a few questions. The changes in employee satisfaction will be valuable information to the management board. The information enables reacting to problems in an early phase.

The second part focuses on new firm long-term development. The literature also emphasizes the importance of learning in M&A. Typically, an acquirer forces an acquiree to adapt its procedures and in these situations, great procedures can be lost. In this case, the goal is to improve procedures and adapt the best practices from both parties. Therefore, the ideas and observations from great procedures are tracked. Especially the safety aspect is highlighted. The M&A must not increase the number of accidents but, on the contrary, reinforce the great procedures that reduce the number of accidents. The other great procedures will be implemented.

The following table summarizes the perspectives and key results.

Business Performance	
Objectives	Key results
Make a profitable business in a long-term	<ol style="list-style-type: none"> 1. Ensure at least same EBITDA-margin than before the merger 2. Generate EUR X of cash flow annually
Financial <ol style="list-style-type: none"> 1. Improve annual free cash flows 	<ol style="list-style-type: none"> 1. Realize EUR X of annual synergy 2. Maintain the gross-margin level during the integration 3. Improve the accounts receivable ratio by X %
Customer <ol style="list-style-type: none"> 1. No key customers leave due to the M&A 	<ol style="list-style-type: none"> 1. Improve orders and revenues from customers by X % 2. Maintain customer satisfaction at high-level during the integration
Internal <ol style="list-style-type: none"> 1. Maintain efficiency during the integration project 2. Integrate companies as planned 	<ol style="list-style-type: none"> 1. Unallocated work-hours under X % of hours 2. Integration costs below the budget 3. Major tasks completed in the first 100 days and the rest in the first year
Organizational and growth <ol style="list-style-type: none"> 1. Create an atmosphere that allows making profitability business in the future 	<ol style="list-style-type: none"> 1. Key personnel retention 100% - employee satisfaction over 4/5 2. Amount of safety observations at the same level

Table 6 Measures for the business performance

4.4 Final Constructed Model:

The successful acquisition that supports the Acquirer's overall business strategy and strengthens the competitive advantage requires the success of integration between the Acquirer and Acquiree to make a profitable business in the long-term with a more efficient organization. There are many different actions that have to be successful to reach the overall target.

Researchers suggested acquirers set an overall goal and derive measures from the value drivers (Gates & Very 2003, Katramo et al. 2013, 480-483). In the previous chapters streams and success factors that lead to success were presented. These value drivers constitute the final measurement model that was constructed for the integration project. It is presented below:

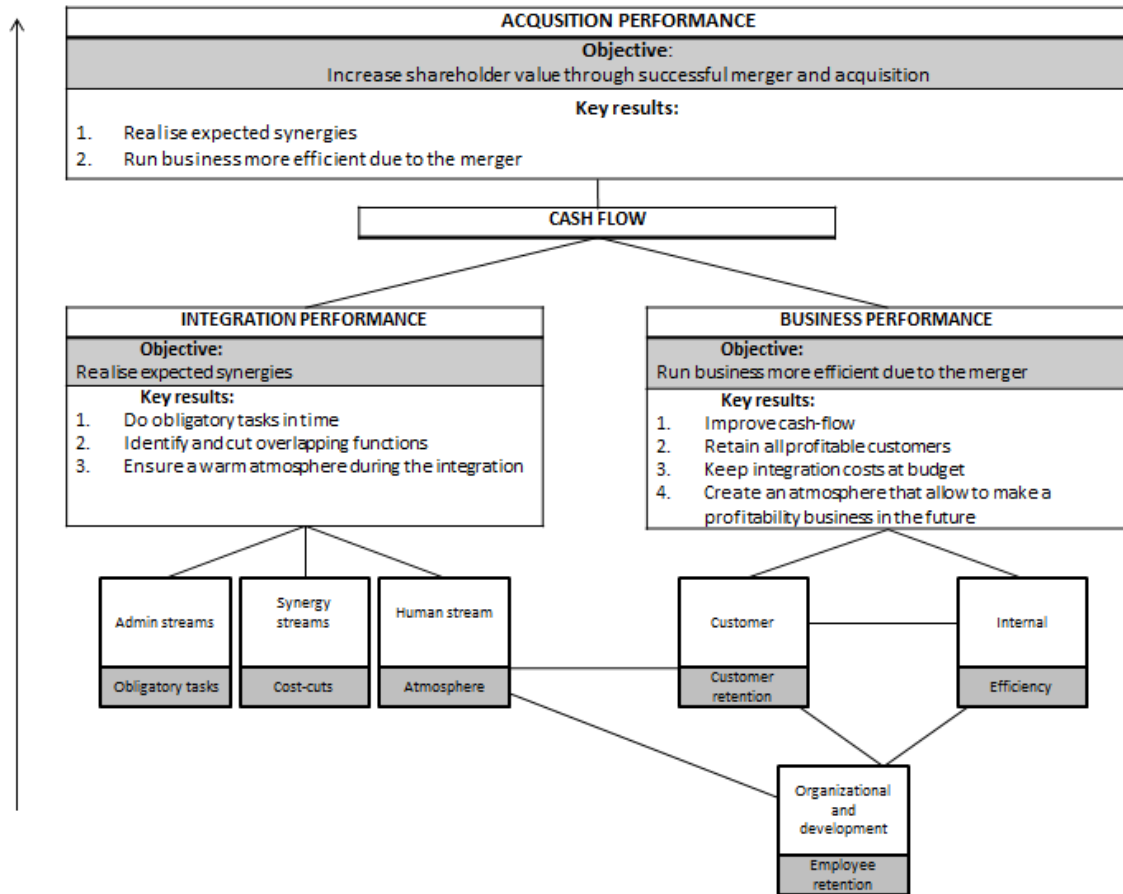


Figure 7 Final measurement model for the M&A integration project

5 CONCLUDING DISCUSSION

M&As are a difficult way to grow a company on the market and create shareholder value. Earlier research has shown that M&As are not money spinners for shareholders. M&As are especially difficult operations in the case where companies are fully integrated into each other.

This master thesis was conducted for the company that was acquiring another company. To fulfill the Acquirer's strategic objectives, the Acquiree had to be integrated to the Acquirer and create a new organization. This case does not make an exception but has a risk that the integration project fails. It would be harmful to the Acquirer because it has invested a significant amount of euros into the acquisition.

According to Gates & Very (2003) study, acquirers tend to neglect the planning and measuring of the integration projects, although careful planning and measuring could help to boost success in the integration project. This study has an objective to advance to the success of the integration project by creating a measurement model for the project. This master thesis constitutes current information on M&As and generates information on how success in the integration project should be measured from the company's point of view. The measurement model highlights the factors that lead to success in the integration project. The measurement model was built based on earlier theory and the experience of Acquirer's managers.

The measurement model was built by defining first the main objectives. The main objective of the M&A is to create more competitive organization at the market which leads to improved profitability and satisfies the shareholders. To fulfill the objective, it requires a successful integration project and running the business at the same profitability level as before the merger. The measurement model consists of two parts where one part focuses on integration performance and the other tracks business performance.

The integration project is further divided into three streams; administrative streams, synergy streams and human streams. Administrative streams aim to complete all obligatory tasks that must be done to run a business formally in a correct manner. The integration project contains many different tasks that

must be done. For example, when the company's name changes all contracts have to be remade on behalf of the new company.

Synergy streams are responsible for the identification of potential synergy and cutting overlapping functions. Before the acquisition the Acquirer estimated a significant amount of synergy. Achieving synergy gains is at the core of the acquisition success. Otherwise the Acquiree was acquired at too expensive a price. Synergy streams consisted of four sub-streams where all sub-streams have their own objectives. Naturally all streams aim to realize synergy.

The human perspective cannot be forgotten in the integration project. There are lots of changes in the integration project and it creates uncertainty in both organizations. Employees are an important asset in the service business and valuable employees should not be lost due to the integration project. Customer relationships are one of the most important assets of the company and they need to be especially well taken care of during the integration project. Even if though all expected synergies were realized, if profitable customers were lost due to the integration project, the M&A could not be considered successful. The human stream has also sub-streams and they aim to take care of both customers and employees.

All streams are followed up with OKR-framework. OKR was a measurement model that consists of the company's overall objective and the key results derived from the objective. The main idea is to set an objective and a few key results that show whether the objective is achieved. OKR is an agile measurement model that emphasized the team leader's responsibility. In the OKR-framework, the team leader usually decides the objective and sets key results. It is up to the team leader whether the objective is achieved or not.

In the integration project all streams were divided into sub-streams and all sub-streams were led by either the Acquirer's or Acquiree's manager. The OKR-framework was chosen for the integration project because the managers are in positions of responsibility at the company and thus it is natural that they set themselves the objectives and key results. The integration project has a tight schedule and many things can change quickly. Lots of decisions have to be made to progress in the integration project. OKR-framework provides a framework for the objectives and the stream leaders can quickly make decisions according to the stream objectives. It enables an organization model in which decisions can be made quickly.

On the other hand, OKR-framework can lead to situations where all responsibility stream leaders emphasize the success of their own stream. In the worst-case scenario, one team can celebrate success at the expense of another team. Literature (Doerr 2018) suggests making shared OKRs where the objectives are connected to each other. At the same time as an integration project, the current business has to be run at the same profitability level as before the merger. Therefore business performance is also measured during the integration project. It ensures that business is monitored and it ensures that different OKRs are connected together. In addition to that, it summarizes the whole business performance

Business performance is measured in the traditional way with BSC framework. The BSC consists of four perspectives that cover both past and future aspects with performance indicators and results indicators. It provides a comprehensive view of business performance.

5.1 Applicability of Measurement Model

The measurement model was built in the summer of 2019 when the acquisition was investigated by the competition authorities. Meanwhile stream leaders set themselves an objective and key results in a co-operation with the researcher. The constructed measurement model was ready for use at the end of the summer. Finally, the acquisition was accepted, and the measurement model was taken into use at the beginning of the integration project. The constructed measurement model was taken into use in almost exactly the same way as what was proposed to be measured.

The performance in the Admin stream was monitored exactly in the same way as the research suggests. All streams first identified their tasks and then listed them. After that the completion rate of tasks was tracked. The completion rate of tasks was reported twice a month to the integration management group. The task-level measuring helped monitor the progress of the integration project and usually lots of new tasks were identified when the management board discussed the completed tasks. It enabled many important things to be identified in the early phase.

The performance of synergy streams was also measured in the same way as this research suggests. In the first phase, expected annual synergy was identified and in the second phase it was divided at more detail level to the functions. The synergy streams consisted of four sub-streams and each sub-stream had its own plans to achieve expected synergies. At the beginning of the integration project it proved difficult to pinpoint synergy. It is much easier to estimate synergies in a big picture, but some of the synergies were realized at the local level and it was sometimes hard to pinpoint synergies in a reliable way. In any case, the identified synergy gains and realized synergy gains were tracked as the constructed measurement model suggested.

The human stream was measured only partly as was planned in the measurement model. The measurement model suggested tracking monthly customer and employee satisfaction. The purpose of measuring these factors was to gather information on employees and customers. The changes in satisfaction could reveal problems in the early phase. It may be too late to react to the problems when the key customers or employees are leaving the company. The customer and employee satisfaction are reported only once in a year and the researcher suggests that the frequency of measurement is too rare. Research has emphasized the importance of human integration in the integration project (Birkinshaw et al. 2000). The integration project creates lots of uncertainty and the integration project requires strong leadership (Katramo et al. 2013, 483, Very

& Schweiger 2003, Schweiger et al. 1993). It would be highly important to know how employees and customers are experiencing the integration project. The information could help focus on business units where the support is especially needed.

The main objective of human streams was to ensure a warm atmosphere during the integration project. The integration project raised the question of how OKR-framework can be used in a matrix organization if one function emphasizes one factor but can't get resources to gather information. In this kind of situation, the team can only partly assess its success. This case proved that the usefulness of OKR is not easy. Although OKR-framework gives more freedom and responsibility to the team leaders, financial responsibility managers ultimately make decisions at the organization

All in all, the measurement model was implemented successfully. During the integration project, streams had regular meetings where the key results and the progress was reported. All stream leaders gathered twice a month at meetings where the progress of the integration project was reported. The division management board gathered once a month together and Head of Division reported performance of the integration project to the Group CEO.

The measurement model gave a comprehensive view of integration progress and performance that further helped stream leaders gain an overall picture of the integration project. OKR-framework was also a suitable framework for the integration project, because team leaders were capable of setting their own goals. OKR-framework enabled the monitoring of many different factors that could change quickly. For example, many different tasks were identified during the integration project and they could be connected to the overall goals.

The measurement model for the integration project is a hypothesis that assumes that the acquisition will be successful if all stream objectives are achieved along with business objectives. It requires that all tasks related to the integration project are done on schedule and expected synergy is achieved. Alongside synergies employees are satisfied with the employer and customers are ready to recommend the company. At the same time business generates cash flow and seeks new opportunities. It may sound easy but it is highly unlikely to run business and integrate companies into each other without challenges. In any case, when the company is able to express performance by numbers it is a step to know more about it and enables the company to react to challenges in the early phase. We remember the old adage: what you can't measure, you can't manage.

On the other hand, this Master's Thesis also shows how difficult it is to create shareholder value through M&As. The constructed measurement model indicates that expected synergies must be able to be shown concretely in the due-diligence process in order to realize synergy and create shareholder value in the integration project. In addition to concrete synergy, integration project must be able to be completed at low costs in terms of synergies. Therefore, managers should emphasize concrete synergies before the acquisition.

These requirements set limits for the M&As. In the worst-case scenario, it can be very difficult to find anything suitable acquisition target on the market.

Nevertheless, managers should not acquire a company if sufficient synergies cannot be identified at a concrete level in the due-diligence process. M&A may look like a great and easy way to grow the company quickly but if the synergies cannot be identified at a concrete level, it is likely to decrease shareholder value instead of creating value.

5.2 Further Research Suggestions

This master thesis raised many new questions. First of all, in this master thesis a measurement model was constructed but the application was only investigated briefly. Kasanen et al. (1993) emphasized that the actual usefulness of construction cannot be proved if the market tests are not done. The constructed model fulfills the demands of a weak market test because the model was taken into use by managers who are financial responsibility for the business. In any case, the application of the model was only reported at the beginning of the integration project and totally new research could be done where the application of the constructed model would be researched during the integration project. At the same time, the measurement model could be developed further.

It would be very interesting to try to make a strong market test for the constructed measurement model. It would be interesting to know if the measurement model can contribute to the success of the integration project in a statistically significant way. Indeed, it would require many integration projects in order to get sufficient quantitative data. It would be difficult to get data from the acquirers. Earlier research has shown that M&As vary much, and it is difficult to create one unique model that is suitable for all integration projects. If the constructed measurement model is suitable for this project, it may not be suitable for another integration project. Therefore, it may be very difficult to pass a strong market test.

Market tests are one way to show the usefulness of constructions. Rautiainen et al. (2017) have widened thinking by creating a relevance diamond. They argue that constructions can be analyzed by assessing the relevance of construction. It would also be interesting to make a new study where the construction was analyzed by assessing the relevance of it.

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