Nottingham University Business School

MBA Programmes

Management Project
Individual Write up

LESSONS FROM CISCO'S ACQUISITION INTEGRATION
(Word Count: 5287 words)

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1. Introduction

Mergers and acquisitions (M & A) are the buzz words for corporates worldwide. The object of mergers and acquisition is to increase the value of the company as it takes long time to create value through organic growth. The purpose of merger/acquisition could be for expanding the company's operations to new markets, economies of scale or scope, acquire new products or capabilities. Investopedia defines 'Merger' as the combining of two or more companies, generally by offering the stockholders of one company securities in the acquiring company in exchange for the surrender of their stock. Acquisition is defined by Investopedia as 'A corporate action in which a company buys most, if not all, of the target company's ownership stakes in order to assume control of the target firm. Mergers and acquisitions are used synonymously though there is a line of difference between the two, where acquisition is takeover of one company by another and clearly establishes itself as the new owner.

Acquisition in general and more particularly in information technology industries are faced with failures. But, Cisco has established itself mainly through acquisitions and has so far acquired more than 120 companies. The growing demand for technological solutions and the technological complexity led Cisco to broaden its products and capabilities mainly through acquisitions. The present study is to analyse whether Cisco succeeded in its acquisition and is there a lesson that could be learnt for those in the industry.

2 Literature Review

2.1 Background

The strategy of the company can be evolved by answering two questions viz., what business the company should be in and why? This will help define the corporate vision and how it will succeed in its objectives i.e., profits and growth. Profit maximising objectives could be achieved by leveraging its resources through cost reduction or by increased revenues either by market expansion or penetration into new markets. Growth maximizing objectives drives the company to seek opportunities where they find a good fit between the firm and opportunity in the new market. The firm tries to build a portfolio of businesses that helps to achieve economies of scale and scope and utilisation of its resources and capabilities. Mergers and Acquisition plays an important role in growth strategy, despite high failure rate, though there are other strategies viz., expanding into new markets, developing new products or entering into joint venture or other alliances. As most of the value of acquisition is captured at the time of integration, post-acquisition performance depends on how well integration is achieved. Most transactions fail due to wrong integration strategy and approach.

2.2 Post-acquisition integration

Mergers and Acquisitions (M & A) has been the preferred growth strategy of the corporate world. The popularity of M & A among corporates is due to the widespread belief that acquisition provides the easiest route to achieving growth and diversification objectives. According to David N Hurtt, et all, (2000) Mergers and acquisition are chosen as growth strategy for gaining certain advantages especially the infrastructure in the form of technology, skilled man power, customer base etc. that are already in place and the acquiring company has to utilise it effectively i.e., the deal provides the company with some specific intangibles and also talents in the forms of employees. The desired results of acquisition could be achieved only through integration process.

Research of acquisition success has yielded contradicting results. The literature suggests various variables for measuring acquisition success and there is no consensus on the variables to distinguish success and failures. Singh and Montgomery, 1987, differentiated between related and unrelated acquisitions and tested the hypothesis that 'strategic fit' is positively related to value creation. Rumelt, 1974 considers business to be related if they (1) served similar markets using similar distribution channels or (2) used similar production technologies or (3) exploited similar scientific research. Seth, 1990, however found that there was no significant difference in the value creation between related and unrelated acquisitions. Jemison and Sitkin, 1986 contended that prior research has provided adequate foundation for assessing issues of strategic fit and continued that strategic fit as a necessary but not sufficient condition for acquisition success and organisational fit is an important supplement. Carey, 2000 suggests that potential buyer should have clear set criterion for evaluating a target in full, including financial information and operating performance and problems, corporate culture and an honest assessment of human talents. To him due diligence is essential for M & A Success.

According to Shrivastava, 1986 the success of M & A depends on the post-acquisition integration of the two companies. A company to reap the benefits of such acquisition has to have an implementation strategy to obtain the synergies The synergistic benefits could be in the form of operating efficiencies and economies of scale requiring high level of integration, in case of related acquisitions, (Porter, 1985) or motivated by the desire to improve sales growth or price-earnings ratio and involve little or no integration (Shrivastava, 1986).

Mitchell Lee Marks and Philip H Mirvis (2001) has observed that less than one quarter of the M & A only achieved the desired financial results in the form of shareholder value, return on investments and post combination profitability. According to them, there are many factors that led to dismal performance viz., buying a wrong company, paying wrong price or wrong timing of the deal and another major factor being the process through which the deal is conceived and executed. Being researchers & consultants, they identified the following phases for successful merger or integration, for the transition from independent to integrated entities –

- Pre combination phase – where the deal is conceived, negotiated and then approved by shareholders and regulators
- Combination phase – where integration is planned and implementation decisions are made
- Post combination phase – where the combined entity is formed and people regroup and the new organisation settles in,

Integration planning increasingly occurs in the pre combination stage before the legal approval is received and in addition to the financial experts, the evaluation team comprise technical and operational people.

2.3 Pre combination Phase

As the combination stage would involve strategic and psychological matters, preparation for integration has to commence well ahead. An assessment under the following heads enables an acquirer to plan for different aspects of potential combination (Mitchell Lee Marks and Philip H Mirvis, 2001):

2.3.1 Purpose

Purpose would provide the rationale, intention and criteria for the deal i.e., to put the strategy to work. The evaluation team religiously evaluates the target in terms competitiveness, its market place, strength and weaknesses and also its management's goals and aspirations based on standardised metrics. A careful consideration of each of the synergies sought would help assessment of the target and to bring out a clear and convincing rationale for the level of integration, in addition to financial fit. With no clear strategic intent for integration, the acquisition could only lead to empire building i.e., acquiring greater resource control than optimal allocation.

2.3.2 Partner

Successful acquirers, screen their partners, usually through due diligence, not only to cover the financial and strategic aspects but also an assessment of human and cultural elements, as these could undermine an otherwise sound deal. Diligent due diligence with a broad team helps to probe deeply and identify faulty assumptions and what might hinder eventual success.

2.3.3 Parameters

Each organisation has its own way of doing business for example the risk taking ability of the business. At this stage, it is wise to bring out clearly at the negotiation the desired end state, and the degree of integration sought to be achieved. Announcement of desired end state clears misconception, if any. The grid of different types (fig.1 hereunder) of post combination change would help organisation to think of their options for negotiation (Mitchell Lee Marks and Philip H Mirvis, 2001).

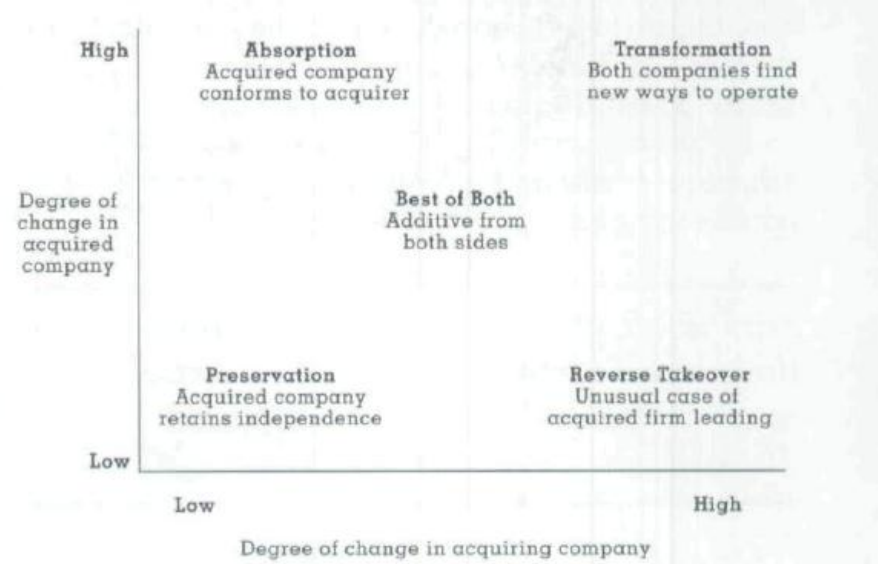

FIGURE 1
Defining the Integration End State

(Source: adopted from Making mergers and acquisitions work: strategic and psychological preparation – Mitchell Lee Marks and Philip H Mirvis, 2001)

Explanation of the diagram (Mitchell Lee Marks and Philip H Mirvis, 2001):

- Preservation – the acquired company faces modest degree of integration. Strategic synergies come from cross pollination of people and work on joint programmes.
- Absorption – the acquired company is absorbed by the parent and reporting, relationship etc. structured for the target.
- Reverse takeover – Similar to absorption but the acquired company decides the combination and cultural change in the lead company.
- Best of both – The optimal choice with full cultural integration – blending of both companies' policies and practices.
- Transformation – undergoes fundamental change and
- Synergies come not from simply reorganising business but from reinventing the company.

2.3.4 People

In an acquisition, the psychology of the buyer and the seller will be very different and will influence the combination process.

There is always a strong air of superiority and impelled to move fast and consolidate their gains, in the minds of the buyer. This dominated action could lead to deviating from the promise of desired end result. Acquired managers are apprehensive even after the promise at the negotiation stage. They try to cope with it either by defensive retreat or psychologically moving forward or look out for better opportunities or turning themselves indispensable. Awareness of these helps both sides prepare for a successful combination.

2.4 Combination Phase

Combination to be effective, the integration team should be well prepared and trained. Clear guidelines that help steer the leadership would help the integration process. It is imperative that the senior executives set the tone, articulate the principles of integration and bring those principles to life in their own actions (Mitchell Lee Marks and Philip H Mirvis, 2001). Psychological preparation is part of combination creating awareness and changing the mind-set of the combination partners. Awareness could be raised by participative seminars, presentations or workshops.

2.5 Post Combination Phase

Good strategies do not lead to good integration but an effective psychological preparation would definitely lead to successful integration and an effective pre combination planning plays a crucial role in transitioning to a unified post-acquisition integrated organisation.

3 Methodology

The literature is based on the success of post-acquisition integration based on research by Mitchell Lee Marks and Philip H Mirvis, 2001, which explains that significant differences could be identified between typical and successful cases by distinguishing them by distinct phases the organisation go through for transition. The distinct phases are being applied to as a case study on Cisco and cull out the learning the company had and the key learnings for others in the industry. All the information for this write up has been from public available resources including literatures and research articles accessible by Google search or the News agencies, industry publications web forums/blogs. Access for reports was through university databases.

4 Case Study - Cisco

The acquisition integration strategy /methodology of Cisco is being used as a case study. Corporate development for Cisco centres around innovation as the path for growth and sustainability and the company adopts a strategy which includes acquisition, investments and partnerships. Acquisitions are segmented into 3 categories viz., market acceleration, market expansion and new market entry. The target companies might bring different types of assets to Cisco, including great talent and technology, mature products and solutions, or new go-to-market and business models. Cisco particularly seeks acquisitions with the potential to reach billion dollar markets (Source: Company Website). Since 1993, the company acquires companies as part of its strategy to rapidly offer new products, reach new markets and grow revenues. Its acquisition had been wide in range right from start-ups to large well established firms such as Linksys, Scientific Atlanta and WebEx. As acquisition and integration is a complex process, Cisco takes a holistic approach and deals with it from the enterprise perspective.

Applying the 3 phases suggested by Mitchell Lee Marks and Philip H Mirvis, 2001, the company's acquisition integration is being studied.

Stages as per literature review	Cisco's phase	Planned task
Pre combination phase	Discovery and Planning	Scope assessment, business modelling, detailed due diligence and integration planning
Combination phase	Execution	Ensuring operational readiness, Activation of employees, resources and integration tasks
Post combination Phase	Monitoring	On-going measurement and adjustment of the integration activity

4.1 Pre combination phase – Discovery and Planning

4.1.1 Purpose

Cisco has categorised the deals into 3 types depending purpose for which the acquisition is made and the level of integration is designed based on that.

Bolt-on

The target company is smaller than cisco and the purpose of acquisition is either a product, technology or talent portfolio.

Hybrid

Needs full integration but the target contain some identifiable complexities that require a standalone operation for a certain period of time.

Platform

The target company is fairly large and have global operations including international subsidies and due to identifiable complexities would need standalone operations for certain period and warrant a customised integration plan.

A clear categorisation of purpose of acquisition has helped cisco to plan its integration based in deal value drivers, identify customer and stakeholder concerns and operational risks and finalise the objectives and questionnaire for due diligence. This helps the company to plan the combination.

4.1.2 Partners

The company conducts due diligence of the target including identification of key employees of target based on the objectives. This helps the integration team collect the information needed for successful integration.

4.1.3 Parameters

The company clearly identifies the purpose and sets out the integration programme including the budget for execution and the communication strategy. The programme undergoes change based on the negotiation and gap analysis and a final plan is evolved (Frost and Sullivan, 2010).

4.1.4 People

Cisco believes that employees are critical part of the acquisition strategy as they hold the key to the next generation of the products. HR is part of the diligence team and the key employees are identified at that stage itself.

4.2 Combination phase - Execution

As stated in the literature review, the two aspects that would help effective integration and lead to acquisition success are the organisation strategy and people (Mitchell Lee Marks and Philip H Mirvis, 2001).

4.2.1 Organisation strategy

The company articulated Acquisition and Development Strategy in 1993 in which year it initiated acquisition as a source of growth maximisation (David Mayer & Martin Kenney, 2004). Currently it adopts multiple strategies for growth and sustainability that includes acquisition, investments & partnerships and strategic alliance. The present strategy is due to technological complexity and rapid change evolving within the high technology industry.

The company monitors the external environment through its Corporate Business Development Group (BDG) also handling venture capital investing, strategic alliance and acquisition. It operates as the repository for information about the ecosystem. Through its relationship in the market, analysts and venture capital firms it keeps track of start-up firms and emerging trends (Company Website).

The BDG is supported by Corporate Development Technology Group by identifying enhancements needed to maximize technology's strategic value. The team maximizes the strategic and financial value of the investment portfolio by (Company's website):

- Providing exposure for portfolio companies to Cisco's partners and business units
- Developing bridging technologies and solutions to enable adoption of portfolio technologies by Cisco and partners
- Developing a comprehensive portfolio management and governance model.

Cisco pioneers a strategy of "buy vs build". When Cisco assesses that a particular technology is as important and does not find a possible target, the option is either to build it internally, if they have technological capability, engineering talent and time or to explore option for sponsoring a start-up with a minority shareholding. Cisco invests on potential start-ups and allows the start-up to stand alone; the advantage for Cisco is that it gets an insight into new technologies and of course without the risk of deploying their internal resources. Sponsoring a start-up or spin-in strategy (Mcjunkin and Reynders, 2000) is important as it is in furtherance of acquisition strategy (David Mayer & Martin Kenney, 2004).

4.2.2 Informal mechanism

The sales and support team is a vital source of market developments. The purchase pattern of key customers provides early indications for market directions. This not only helps identification of innovative technologies but also the firm pioneering them (David Mayer & Martin Kenney, 2004). It strengthens the company's acquisition. According to the then Chairman of Cisco, in the year 2001, they were more comfortable acquiring small start-ups as they felt it could be easily amenable to Cisco's way (David Mayer & Martin Kenney, 2004).

The next source is the employee resource group (ERG) a network of multicultural, multigenerational experts committed to realizing Cisco's vision. The group with their diverse expertise facilitate product development, marketing, and advertising to an increasingly diverse consumer base. They are a plentiful source for innovation, business engagement, and diverse perspectives. (Source: Company's website).

4.2.3 Psychological matters and employee retention

Effective integration into the business of the acquirers is not only about integrating the systems, business processes and business plan, it is also about integrating the people who are the brains behind all these aspects. Effective retention is the cornerstone of acquisition and its integration. As Cisco has learnt over a series of acquisition, it is not only the intangibles that are acquired but also the tangibles in the form of human capital from the target and also a form of recruitment of employees. It is also appreciative of the fact that acquiring the company without the brains behind the company would add no value and employee retention is an important determinant of post-acquisition performance (Canella and Hambrick, 1993). Cisco has a target of 100% employee retention on acquisition. According to David Mayer and Martin Kenney, 2004, retention of employees had a demonstration effect; the management team at the target is made aware of the opportunities available for the newly integrated managers. He further stated that to encourage retention Cisco introduced "buddy" system which pairs current employees at Cisco with an equivalent member of the target. HR is part of due diligence team and once a deal is being evaluated and negotiated; the HR does the background verification of the potential employees to assess their fitness to the larger organisation.

The most crucial effort is the confidence building for the team to be acquired and can be achieved through effective communication and compensation packages. Hence Cisco HR integration team has designed the integration strategy to address employee concerns and smooth transition. For communication, Cisco creates an internal website containing detailed information about the transition process and other training tools and resources. Transition letters are issued and their personal files created electronically for ease of access and updation. As regards compensation package, HR discusses with the identified target company employees to understand their post-acquisition intentions and their pay structure including stock options and benefits, a crucial factor to ensure retention.

Director, acquisitions at the HR Department (IT case study on Acquisition Integration) stated that to enable the employees of the acquired firm to focus on their work, a quick communication on their job status is essential and this would ready them to work as Cisco's employee from the day one after the deal close.

4.2.4 Integration Process at Cisco

The aspects viz., organisation strategy and psychology matters and employee retention, were part of the integration plan. The integration criteria and integration guidelines for each type of acquisition deal are placed as Annexure I. In 1994 Cisco appointed a Manager exclusively for acquisition as a business process and in 1997 they appointed a fulltime manager and slowly the team was developed. Acquisition being an important strategy, it is familiar with the challenges associated with integration of people, products, operations, systems and processes of the acquired companies. An integration process and organisation to handle concurrent acquisitions with minimal disruption of business for both Cisco and the acquired company (Frost and Sullivan, 2010) has been developed and continue to evolve, that includes -

- Building a clear management structure and cross functional integration team owned by Corporate Business Development group
- Early engagement and participation by the integration team
- Developing a formal integration process – from due diligence to post integration monitoring
- Creating metrics for monitoring performance – based on value drivers and synergies aimed.
- Constructing a timely and effective communication strategy.

The key principles that guide acquisition integration could be discussed under three heads –

Alignment – set common standards so that the integration process and the internal organisation are aligned to achieve the goals intended through acquisition.

Communication – cross functional communication to help achieve integration.

Operational effectiveness – continually improve integration capabilities across Cisco by:

- Promoting consistent, repeatable processes reducing set up time and also help resource and capacity planning for integration
- Adapting integration standards to suit different business models
- Learnings from prior acquisitions.

Integration team

The Corporate Business Development (CBD) group leads the integration planning and the integration team is developed as two layers – one at the central level and cross functional team to work together. The cross functional team has representation from all departments and functions. Cisco IT is a key team member of the central team that reports to the CBD for integration work.

Tools and methods

The central integration team broadly defines methods, tools and processes that could be standardised and provides a leader for the cross functional team. The cross functional team then manages the planning, execution and monitoring of integration activities. IT integration team coordinates infrastructure, business systems, and business processes. The team meetings were conducted using Conference calls, WebEx meeting or Virtual meetings and documents shared online and through project management software. Virtual meetings facilitate easy and clear communication since the participants can see each other.

Integration Model

The company initially adopted a “consume” i.e., full integration approach to integration due to changing business conditions the adopted the new process C5 to manage the integration in 2008 (Cisco IT acquisition best practices, 2008). The details and process of the model is placed in Annexure II.

No matter how excellent the strategy is, the success of acquisition would be only through effective integration and Cisco developed a formal process for achieving post-acquisition integration.

4.3 Post combination - Monitoring

The integration team reviews the progress till it is completed and the acquired company is fully integrated into Cisco. The task of the integration team continues post integration to identify long term benefits and potential challenges. The integration process is reviewed and lessons learned and process updated. Quarterly reviews are conducted until completion of two years post-acquisition (Frost and Sullivan, 2010).

5 Acquisition failures

There are instances of failures in Cisco’s acquisition and lessons to learn. The first major failure was the acquisition of Stratacom in 1996. The company was purchased to rapidly enter the ATM switching market. The deal did help to achieve the objectives but had difficulties. The main difficulty was the differing sales compensation that led employees of the acquired firm to leave. The second instance was in 1999, when the company invested in fibre optic division of the Italian Pirelli Industrial Conglomerate. The reason for the failure is the management hierarchy in the target. In 2001, the company had written off five acquisitions. The reasons were three factors viz., acquisitions were made in emerging markets and entry of competitors at later stage. Secondly the technology differed from Cisco’s competency. Thirdly, telecommunication bubble when Cisco was compelled to acquire firms at earlier stages in life cycle, increasing the risk of failure (David Mayer and Martin Kenney, 2004). Scientific Atlanta was acquired in 2005 for $7 billion to enter the business of cable set-top box and digital video recorders. The company plans to hive off the unit mainly to concentrate on core priorities set by the company in April 2011 and given the evolving technology and expected competition from Google and apple (Business Chronicle, No.4, 2011)and the company has set the date for official end. Not every acquisition was successful and there had been larger percentage of failures in sectors other than its core competencies.

5.1 Knowledge codification

Cisco has developed and continues to evolve approach towards integrating its acquisition and has standardised process, metrics, tools, methods and processes that can be repeated to new integration and yet adaptable to unique issues and parameters of each deal, this is in line with Zollo and Singh, 2002 "knowledge based view of the firm derived by Nelson & winter 1982, Kogut and Zander,1992, Grant 1996 that the performance of the acquisition process depends on the capability developed by the acquiring firm specific to the management of acquisition process. Secondly the degree of codification exhibits a strong and positive influence on acquisition performance".

6 Comparing Cisco's approach with European Firms (Inkpen et al. 2000)

Inkpen et al, 2000 studied the European firms' acquisition in Silicon Valley by using six case studies and compared with a bench mark viz., Cisco Systems. The purpose of European firm's acquisition at Silicon Valley tended to be for two main reasons: to enhance an existing product line and/or to access the target's technology and existing customers. They identified the following 4 factors as important drivers for successful post-merger integration i.e., speed of integration and nature of decision making (ii) communication style and vision creation (iii) networking and socialising and (iv) "who is in charge" and concluded that European firms face difficulties in acquiring Silicon Valley assets though many of them were solvable.

On benchmarking the Non US firms with Cisco Systems, the authors found that Cisco's management believed in two keys elements for its success viz., doing the necessary homework to select the right company and effective and replicable integration process. They also observed that according to Cisco Geographical proximity as critical, as this could affect the cultural fit and the speed of integration. The next thing at Cisco's acquisition is about people. The company believes in 100% retention of employees of the target. Cisco used integration team to achieve speed of integration including the employees and project the acquired company as part of Cisco to its customers and outside world as soon as possible. But European firms took four months to link the target with the acquirer company.

Significant difference between Cisco and European acquirers – Table (Inkpen et al., 2000)

Comparison of Cisco with Non Us Acquirers

Acquisition issues	Cisco Systems	Non US Acquirers in Silicon Valley
Integration speed and decision making	o Uses integration team to integrate everything, usually within 100 days. o Thinks in internet years and plans quarterly. o Acquires close to home, simplifying various integration issues.	o Usually do not use integration teams. o Slow to make decisions. o By default, do not acquire close to home.
Communication and Vision	o Immediately lets the new employees know what their roles and titles will be. o Has a strong vision for the future of the company (ies) acquired.	o Need to improve both the quantity and quality of communication with the target. o Do not communicate a vision to the target.
Networking and Socialisation	Finds new markets and acquisition opportunities through socialising and word-of-mouth.	Seem reluctant to socialise.
Who is In Charge	o Prefers to keep a target's senior managers, if they fit in with Cisco's culture. Otherwise, they are asked to leave. o Retains the majority of the acquired company's employees by understanding what is important to them and what motivates them.	o Prefer to keep a target's senior managers. o Attempts to retain senior management through golden handcuffs. o Seem to have no clear plan for retaining other employees.
Stock Options	Continues to give stock options to an acquired company	Usually discontinue stock option plans
Integration approach	o Integrates the target as a business unit in charge of its own product development and marketing, but centralises the target's manufacturing, finance, sales and distribution. o Focuses on the people first and then on how to drive the business. o Is not arrogant. Instead, the company is paranoid.	o Each acquirer created a different, unique structure. o Not consistent in focus. o Suffer from a stereotype of arrogance.

The final observations based on the above study are: The European firms are addressing the issues revolving around acquisition integration. Though they lack in some specific areas they could add value in certain situations in acquiring technology firms. Business culture and attention to integration will mitigate problems and the critical issues for success as stated above needs to be addressed for successful acquisition and integration by European firms (Inkpen et a1, 2000).

7 Key learning for Cisco and others in the industry

From the above analysis of acquisition integration at Cisco and based on the comparative study, leads to the following learnings -

Integration team – A separate well trained team at the corporate level is vital for the smooth transition of the acquired company. The team should be broad enough to cover the key departments for effective due diligence and for handling the combination phase.

Proper structure/process – A standardised structure and proper leadership, a proper plan for integration and its effective implementation, of course, with a scope for review in case of uniqueness of the target.

Learnings – Experience is gained at each of the acquisition integration and the lessons learnt (including learning from mistakes) should be extended for future integration plans and implementation.

8 Conclusion

Mergers and acquisitions (M & A) continue to be the growth strategy for companies worldwide. In high technology industries, acquisition is the fastest route to compete and enter new markets. The above study examined the variables for measuring success in acquisitions and the key criterion identified for post-acquisition performance were strategic fit and effective integration. The case study on Cisco and the European firms substantiated the same, as the object of acquisition in these industries is mainly towards enhancing the product line or new technology or entering new markets. Acquisitions can add value to the firm and its shareholders only when the synergies for which such acquisition was made is achieved and effective integration is the process through which the value is actually created. Acquisition when not founded well could lead to value destruction and the following either individually or in combination may destroy value.

(1) Lack of strategy: Managers vaguely define their business and are not backed by sound strategic thinking. Imitation behaviour and executive ego turn out to be motives.

(2) Over optimistic expectation of synergy: acquisitions are aimed at the desire to acquire a particular business and lack of synergies may hinder integration process

(3) Inadequate due diligence: Lack of clear set criterion for evaluation could lead to improper risk assessment and its quantification.

(4) Conflicting corporate culture: corporate culture of the target impacts integration and hence ignoring them at the initial stages could lead to integration issues.
(5) Learning lessons: prior acquisition experience is to be properly processed to be learning for the future, its ignorance may prove costly.
To conclude, the following are essential for effective integration and success of acquisition for an organisation. A dedicated team with people from key departments well trained in planning and implementation of post-acquisition integration. Secondly a proper process document right from due diligence to handling integration has to be prepared and used, though not rigid and has enough scope for adjustments, depending on uniqueness or gap analysis. Lastly, as stated by Zollo and Singh, 2002 capability acquired by the firm specific to the management of acquisition process would help influence post-acquisition performance.

9 Limitations

This report is based on secondary data and the acquisition details and the reports used for analysis are older by more than a decade due to non-availability or short availability of data. However, extending the analysis further, Cisco's strategy of growth is through acquisition and it does at least 3 to 5 acquisition a year either in their core competence or into new areas. The company being in high technology industry it invests in emerging technologies or design dominance. Hence the investments take place at an early phase, much before the trend sets in, this leads to the risk of failure i.e., it is left with bad combination/assets.

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Annexure I

Cisco Acquisition Model

The model addresses the likely impact of a newly announced acquisition and allows the team to map the likely approach to a given integration.

Acquisition approach and level of integration			
Approach	**Integration Criteria**	**Integration Guidelines**	**Integration SLAs**
Bolt-on	○ Target is significantly small than Cisco; generally: • Fewer than 200 employees • Purchased for small product, technology or talent portfolio • Aligns to existing business unit or technical group	• Target is fully absorbed into Cisco functional infrastructure Legal entity closure is completed within one year of deal closure (if applicable) • All capital equipment is funded by business unit • All It labour is absorbed by It Global Business Process (GBPs)	• Full operational integration is completed within 100 days of deal closure • Process takes less than three months
Hybrid	○ Target has criteria similar to bolt-on deals, but contains certain identifiable complexities that require specific sensitivity during integration: • Fewer than 500 employees • Needs to stand alone for the extended period of time • Target is nonstandard through standalone phase • Supports own IT during standalone phase	• Integration of target company may be full, partial, phased or standalone • Legal entity closure may not be completed until after one year of deal closure (if applicable) • All capital is funded by business unit • All IT labour is absorbed by IT GBPs	• Operational integration of some infrastructure or functions may not occur until 180+ days after deal closure • Process takes three to nine months
Platform	○ Target company is fairly large (500+ employees): • Large global operations • May have significant multinational subsidiaries • Target Company contains certain identifiable complexities that require specific sensitivity during integration.	• Integration of target company may be full, partial, phased or standalone • The target company may or may not remain a separate operating and legal entity • All capital is funded by business unit • All IT labour is funded by deal or target company	• Operational integration of some infrastructure or functions may not occur until 180+ days after deal closure • Customised integration plan and timeline are required for each acquisition (usually two years or more); non-negotiable items include: ○ Cisco on Cisco ○ Standard PCs with Cisco Image: VPN, cisco Security Agent, Altiris and IPTV ○ Support is shared for the life of the acquisition ○ Process takes three to nine months

(Source: Cisco IT Acquisition Best Practices, 2008)

ANNEXURE II

Integration Process overview

Cisco IT team uses 3 primary processes for integrating companies. The process is based on the complexity of the target and is based on the acquired company's business model, size, the number and location of the facilities.

1. Capture – for all integration projects. This process captures all the information viz., assets, people, budget and strategy both internal and of the acquired companies. This helps the company to rank the priorities of the company and the target and work towards the acquisition goals. The two organisations begin to act as one with a new focus and combined team as shown below:

(Source: adopted from Cisco It Acquisition Best Practices)

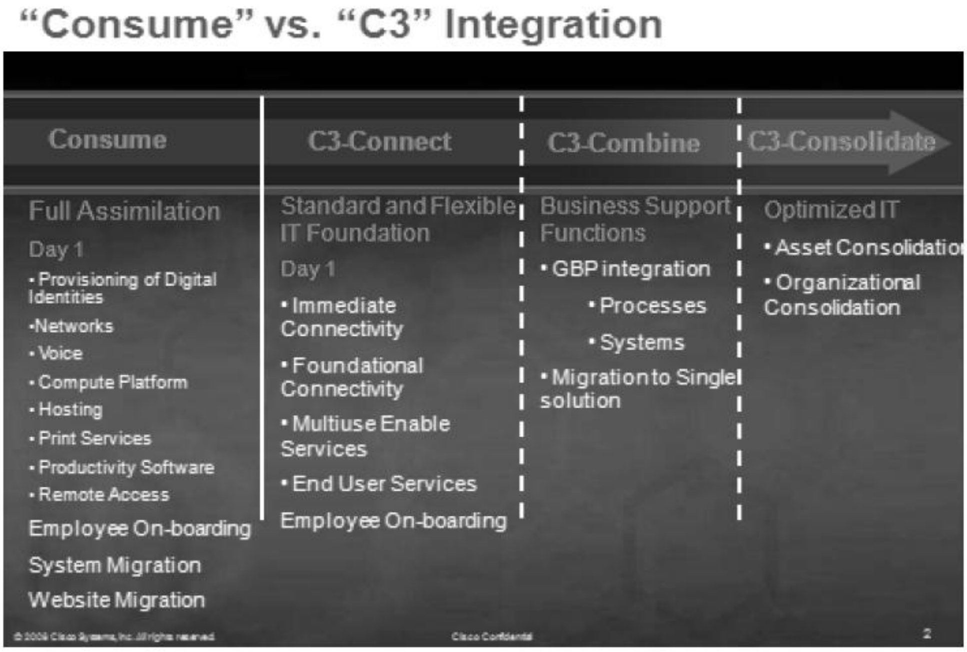
2. Consume – for bolt-on acquisitions. Consume addresses a company's people, processes and infrastructure. The integration is completed quickly and no parts of the original organisation remain separate. It dilutes the original company and is fully integrated into Cisco.

3. Connect, combine and consolidate for more complex acquisitions viz., hybrid and platform acquisitions.

Connect establishes connectivity for the initial core infrastructure, setting up primary communication and collaboration tools and systems.

Combine integrates the business systems and processes; and

Consolidate realises the economies of scale through organisational asset consolidation and occurs after most infrastructure and processes of an acquired company have been completed. The figure below shows the level of integration for consume and C3 for each stage.



(Source: adopted from Cisco It Acquisition Best Practices)