MASTER

Merger and acquisition decision making from a valuation perspective

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Merger and Acquisition decision making from a valuation perspective

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Abstract

The thesis as presented here is the result of a graduation project executed in order to improve the ‘mergers and acquisition’-procedure of firms. Despite the widely discussed reasons of M&A failure in the scientific literature still a lot of acquisitions fail. The anticipated benefits are never reached or value is destroyed by simply having paid too much. Also the subject company of this research has had some negative acquisition activity experiences. This research therefore focuses on the acquisition process of this firm and subsequently improves this procedure by designing a valuation based acquisition decision making tool.

The tool incorporates the benefits as well as the costs related to integrating the target through among others the acquisition process and context. As a result of incorporating these costs a more accurate valuation is achieved. The tool thus directly reduces the chance on paying too much. Anticipating on these costs however also asks for better insight in the acquisition process and potential problems related to the acquisition; problems which often are related to the integration process and the context. By anticipating on these costs and improving the process knowledge and insight in the context the tool improves the (strategic) rationale and planning of the acquisition and thereby increases the chance on a successful execution of the activities in the integration phase. In the end this improved insight in potential problems and the process indirectly improves the chance on success. The essence of the tool thus cuts both ways by incorporating the costs; it improves the valuation and it improves the integration process, both resulting in a lower M&A failure rate.
Preface

This thesis is in the first place the final assignment of the master program Innovation Management at the Eindhoven University of Technology. On the second place it also forms the final assignment of my education in becoming an industrial engineer.

The master Innovation Management in my opinion really completes an industrial engineer. Where the bachelor’s degree primarily focuses on the internal organization of a company, Innovation management has a more external orientated focus. The increasing complexity of the markets and their velocity of change cause exactly this external focus to become ever important. The company which is able to adjust its internal organization to this external environment thereby being able to deal with or perhaps even to determine this environment is the company which eventually books the greatest success.

Within this interaction between a company’s internal capabilities and external environment, also the mergers and acquisitions take place. In increasing extent these M&A’s are the identification of adjusting to this environment. To keep up with the pace of technological change, companies, instead of developing the technology themselves, have to make this technology their own through mergers and acquisitions. However to make something from outside something of your own is a complex process; a process which involves all levels of the organization, from the strategic level to the operational level, but which involves all functional departments as well. In that sense, at least in my opinion, is a M&A project the ultimate challenge for an Industrial Engineer and was this subject so interesting for me.

I therefore would like to thank Myriam Cloodt, my supervisors from the TU/E, and the company supervisor for the opportunity, the insights, feedback and comments they gave me.

Further, my gratitude goes to professor Geert Duysters as being the second supervisor of the TU/e, my colleagues who often without noticing it helped me to change my mindset, the experts from, Boer & Croon, PWC and in particular Berenschot, Capgemini and Deloitte to provide me with the feedback and data needed to create the tool and last be not least of course my friends, family and girlfriend!

Derk van Dijk

March 2012
Management Summary

Introduction
During history mergers and acquisitions have played an important role in the development of ABC into the company it currently is but also in the future ABC recognises M&A’s to be a means for strengthening the firm. However, ABC also had some negative experiences with an acquisition which has cost more time and money than was expected in advance. Besides, considering another acquisition it was doubted by the author whether the integration strategy being followed was appropriate in relation to ABC’s corporate strategy.

The market developments as a result of the economic crisis and changing customer demands force the industry and consequently ABC to change. In light of this need to change, ABC recently transformed its organization structure to enhance the internal cooperation, thereby increasing the operational performance and reducing costs. ABC further acknowledges it insufficiently utilises the synergy between the various activities.

Taking this into account while considering one of the more recent acquisitions of ABC and how this firm is integrated, i.e. letting it act independently, it is doubted whether this acquisition matches the corporate strategy as elaborated above, consequently whether the requirements set by the market are met, and in the end whether the acquisition will indeed create its potential value. The deal seems to miss a good strategy, after all, acting independently implicitly means less cooperation and consequently a higher probability of unnecessary adjustment and failure costs; exactly the opposite of what ABC observes to achieve and reason to consider the M&A process of ABC more closely.

Analysis
ABC’s merger and acquisition process has been subjected to an analysis in which findings from literature have been compared with practice. For an elaboration of the findings of this analysis the reader is referred to chapter 4 here a short summarisation of the main findings is provided.

Two observations stand out in particular, these are: the ad hoc and opportunistic nature of the process and the role the acquisition initiator plays. The acquisition initiator is often not solely the person who proposed the idea, he is responsible for generating the business plan and the analysis of the target firm, and is subsequently to large extent responsible for the decision to acquire the target firm. Both observations are considered to be the result of the absence of a formal acquisition procedure which causes the acquisition process of ABC to be based on emotions instead of being (more) rational and ad hoc instead of planned.

Furthermore in relation to the absence of an acquisition procedure, the absence of a formal acquisition managers and the selective target assessment performed in case of time restriction which are particularly present in bankruptcy based acquisitions, are considered problematic as well. Missing a formal acquisition manager causes an objective view towards the process itself and the target company to be absent. Furthermore missing such a position results in the need for ABC to transfer the responsibility to another manager after the decision is made; after all, the manager has its own responsibilities already. This transfer of responsibility in combination with the absence of a clear integration plan elaborating the integration vision causes the objectives of the acquisition and thereby the observed advantages of the acquisition first to be diluted and eventually to be missed.
Considering the selective target assessment as a result of time restriction, Galpin & Herndon (2007, pp. 14) argue that time restrictions may not result in “hurrying the fact-finding process, omit key parts of it or gloss over it in the rush to do the deal”. After all, important aspects leading to direct failure and high costs are easily overseen. Besides in other projects, time restriction is also no excuses for skipping some parts thereby taking significant risks. Instead, capacity is increased and for next time a proper preparation is ensured. This metaphor also holds for the due diligence; putting a formal acquisition procedure in place causes ABC to be better prepared, which makes the due diligence more efficient and effective.

Given the observed problems it has been concluded that most problems are the result of the absence of a formal acquisition procedure. Developing a formal acquisition procedure is for this research however considered too extensive and it is therefore chosen to focus on the valuation of the target firm; more specifically on the valuation of the extra benefits and costs on top of the firm’s intrinsic value as a result of the combination of both firms. The intrinsic value determination is left out of scope.

The focus on the value determination in this research improves the acquisition process through the input required in setting the right price, i.e. quantifying the synergies and defining the costs related to the approach used in realizing these synergies. This improvement of the acquisition process thereby in the first place helps to create the M&A integration plan by means of the identification of synergies, obstacles and contextual factors that will influence the process’ benefits and the costs of obtaining these synergies. The valuation model thus creates better insight in the risks involved in the whole acquisition process and thereby in fact lowers this risk. On the second place it also improves the entire decision making on whether it is still beneficial to acquire the target firm through a more accurate delineation of the cash flows. Concluding, the thesis answers the following question:

**How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?**

This question has been answered by considering both the benefits or synergies and the cost factors. In valuing the synergies, five sources are identified (Eccles et al., 1999): cost savings, revenue enhancements, process improvements, financial engineering and tax benefits. Valuation of the cost factors distinguishes three broad categories, i.e. synergy investment costs, dis-synergies, and overhead costs:

- **The synergy investment costs** represent those costs which are made in order to realize one specific synergy. The investment costs thus should result in the realization of the synergies and are found in relation to all of the earlier mentioned synergy sources. An example of a synergy investment cost is the lay-off compensation which results from the costs saving synergy; employment.

- **Dis-synergies** are the opposite of synergies and are further distinguished along two axes; their ‘predictability of occurrence’ and their ‘predictability of costs-height over time’. This results in classification of fixed dis-synergies and three types of variable dis-synergies. The characterization based on the predictability of occurrence and costs-height over time helps to focus on how to manage these cost types which is done, either through measures which prevent them from occurring, through measures focussed at minimizing their effects, or a combination of both.
• Overhead costs are costs related to the prevention and counter measures meant to prevent the dis-synergies from occurring and to minimize their effect in case they do occur. This cost type further includes those costs which are the result of the measures performed in order to set the stage for the realization of the synergies. The overhead costs are thereby thus the cost type which is directly related to the integration process itself and the acquisition’s context.

Considering the synergies, synergy investment costs and dis-synergies it is subsequently argued they should be monetized, however the costs related directly to the integration process itself, the overhead costs, are very difficult to estimate and would therefore also negatively influence the reliability of those who can be estimated fairly well. Quantification of the overhead costs is therefore abandoned. Instead, taking the overhead costs as starting point, an advice is generated. The overhead costs are as was said already, the direct result of prevention measures, counter measures and measures to set the stage for achieving the anticipated synergies. These overhead costs are thereby related directly to the activities in the integration phase and the context of the acquisition. The advice generated consequently uses the integration process as defined by Haspeslagh & Jemison (1991) as framework to which the factors influencing the execution of the activities and the stakeholders involved in the execution of the activities are linked. These relationships between factors and activities, and stakeholders and activities, are identified by interviewing experts in the M&A field.

Solution
Eventually the answer to the main research question is a valuation based decision making tool involving a monetary part and advice part. The steps of this decision making tool are graphically represented in figure 0.1:
As can be seen in figure 0.1 the Tactical & Operational justification level distinguishes the ‘Monetary Synergies & Costs Part’ and the ‘Advice Part’. For both parts an excel module is provided where the input must be entered. Furthermore, exists between both parts a mutual connection, which represents the iterative character of the tool. This iterative character is important because as the number of iterations increases also the understanding and detail of the process, the synergies and the costs increases, subsequently resulting in a valuation and advice which are more accurate. When it is believed further iterations will not result in significant improvements in either of both parts a final acquisition decision must be made. Remember here that the monetary value only indicates the extra costs and benefits as a result of a potential combination of acquirer and target. The value thus represents the amount where can be negotiated about on top of the intrinsic value. Besides, the valuation of the monetary part doesn’t include the costs as a result of the overhead, therefore also the ‘advice part’-result should be taken into account.

The valuation based decision-making model as presented here is thus an addition on the target valuation which is already made by ABC. This model however not only improves the valuation it also improves the substantiation of the decision from a process perspective. The latter through: setting clear goals, anticipating on potential problems while reaching these goals, and incorporating the stakeholders who have to reach them. The tool thereby makes the M&A process of ABC (more) rational instead of based on emotions and planned instead of ad hoc.
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Introduction

Throughout history companies have acquired others or decided to merge. The reasons to head into a merger or acquisition (M&A) are manifold, but all originate from the conception that in the end these companies together benefit more in comparison to a situation where both companies would have stayed independent; a conception which generally is also the result of conditions of the market the firms operate in. These motives often resulted in so called M&A waves; “periods of time characterized by relatively large numbers of mergers reported simultaneously in many industries” (Reid, 1969, pp.15 in: Auster & Sirower, 2002). The first well known wave was primarily motivated by firms trying to dominate the market through horizontal acquisitions (Lipton, 2006), while the second wave originated from the motive of vertical integration and product line extensions (De man & Duysters, 2005; Lipton, 2006). Markets change and subsequently firms have to adapt. In markets of fast changing, technological highly complex products for instance, companies which rely on internal product development are unable to keep up with the pace and therefore turn to M&A’s in order to stay competitive (Ranft & lord, 2002).

However, simply conducting a merger or acquisition doesn’t imply these changing market demands are automatically met and the combination will be successful. In contrast, after the deal between both firms is closed, the process has only just begun and the benefits of the combination which were observed now have to be realized. This is however not as easy as it may seem and is the reason lots of M&A’s failed and are still failing; failure in the sense that the observed benefits or value isn’t created. The basis of failure according to Haspeslagh & Jemison (1991) lies in the M&A process starting in the pre-acquisition decision making phase and subsequently the post-acquisition integration phase. For instance, the deal lacks a good strategy, a poor target firm was selected and both firms are integrated poorly. Reason for ABC, our subject firm, to consider their own M&A projects more closely and see whether improvements can be made.

Take for instance the latest acquisition of ABC. ABC has to deal with changing market conditions as well as a result of the economic crisis and changing customer demands. In light of this need to change, ABC recently transformed its organization structure in order to comply with the requirements set by the market. The organisational structure should enhance the internal cooperation, thereby increasing the operational performance and reducing costs. ABC further acknowledges it insufficiently utilises the synergy between the various activities.

Taking this into account while considering the most recent acquisition of ABC and how this firm is integrated, i.e. letting it act independently within the ABC Group, it is doubted whether this acquisition matches the corporate strategy as elaborated above, consequently whether the requirements set by the market are met, and in the end whether the acquisition will indeed create its maximum potential value. The deal seems to miss a good strategy, after all, acting independently implicitly means less cooperation, and consequently a higher probability of unnecessary adjustment and failure costs; exactly the opposite of what ABC observes to achieve. Besides, also the experience with another acquisition of ABC indicates that their M&A processes don’t function properly, integration has cost more time and money than expected.

Although Shrivastava (1986) and Haspeslagh & Jemison (1991) indicate already in the late eighties begin nineties that M&A failure is the result of poor pre-deal acquisition decision-making and poor
post-acquisition integration processes, more than 20 years and lots of academic literature later, more than half of the M&A’s still fail. It is thus not strange to say that something is still going wrong. As a result of this and the doubts about the appropriateness of the integration strategy being followed by ABC and finally the negative experiences with an earlier acquisition in which integration has cost more time and money than expected, the M&A process of ABC is subject for further analysis.

As will become clear in this thesis, this analysis has led to a valuation based decision making tool which firms increases the success rate of their M&A’s. The tool improves the chance on a successful acquisition through anticipating in the pre-acquisition decision making phase on what might reasonably be expected in the acquisition integration phase to take place as a result of the decisions made exactly in this pre-acquisition decision making phase concerning the goals, strategy, and how and when to deal with potential problems. In fact this valuation based decision making tool bridges both phases by means of something what appeals to the acquirers imagination; monetary units! The thesis, through this tool, thereby not only makes the theory from literature more applicable in practice it also contributes to the literature by combining what has been written in the academic literature already.

The thesis thus eventually presents a valuation based decision making tool, however before this is done an elaborate analysis is performed. The thesis starts in chapter 2 with some general information of this research, primarily explaining the methodology of the research and its quality. Chapter 3 subsequently focuses on the existing M&A literature in order to provide the reader with a reference guide for the chapters to follow and perhaps even more important to serve as input for the valuation based decision making tool designed later on. The literature review is subsequently used in chapter 4 in analysing the acquisition process of ABC in terms of making a comparison between how ABC organises their acquisition process and how it should be done according to literature. This comparison subsequently leads to a problem mess and explains how a better valuation improves the acquisition process of ABC. In chapter 5 and 6 the content of the valuation is elaborated; chapter 5 focussing on the valuation side of the benefits or the synergies and chapter 6 especially focussing on the costs side. Especially this cost side is of interest because, as will be argued, the costs are to large extent the result of the activities in the integration process; which in turn are influenced by the context of the acquisition. This context is mainly determined by the factors as described in the literature and elaborated in chapter 3. The content of the valuation as described in chapters 5 and 6 is finally combined by designing a valuation decision making tool in chapter 7. Chapter 8 in the end provides the conclusion and the discussion. First however our attention is turned to a general thesis’ research approach and quality.
This chapter describes the design of the research being conducted concerning ABC’s M&A process. Because of some doubts about the effectiveness of the M&A process and the “negative” experience ABC had with an earlier acquisition, it is chosen to perform a research which focuses on solving (practical) problems in organizational settings, so called business problems. From this business perspective it is subsequently tried to also contribute to literature, however the main goal remains to look for improvements in ABC’s M&A process. The business problem-solving (BPS) framework being used is explained further in section 2.1. Section 2.1 furthermore describes which step of the framework is found in which particular chapter of the thesis and thereby already provides a preview on the content of the thesis. Section 2.2 then focuses further on the methodology explaining the research type being used and section 2.3 subsequently elaborates on the data collection method. Finally section 2.4 concludes with the quality of the research particularly focussing on the construct validity, the internal and external validity, and the reliability of the research. First however section 2.1 explaining the problem solving framework being used.

2.1 Problem solving framework

The research presented here is build on the business problem solving (BPS) project methodology of Van Aken et al. (2007), who in turn base their methodology to a large extent on the problem-solving regulative cycle of Van Strien (1997) which is graphically represented in figure 2.1.

![Figure 2.1: The regulative cycle (source: Van Strien, 1997, in Van Aken et al., 2007, pp. 13)](image)

According to Van Aken et al. (2007) defining a problem starts with an initial statement, which eventually may appear to be a perception of a problem or just a symptom of an underlying problem. In case of this particular research, the initial problem isn’t so much a direct problem at hand; instead the initial problem is translated into doubts about the effectiveness of the acquisition process as is explained in the introduction. These doubts have led to a primary analysis or orientation on the M&A process and consequently an identification of the points of improvement in this process. Applying the reasoning of Van Aken et al. (2007), these problems are subsequently put in a problem mess, showing the relationships between the different problems. This analysis and the problem mess of ABC’s M&A process can be found in chapter 4.

However, in order to perform this analysis and to create this problem mess, first a proper orientation on the subject matter is performed. Chapter 3 therefore elaborates on the knowledge which is
already present in the field of M&A research. This literature review learns that failure of an acquisition is the result of a failing M&A process which both incorporates the decision making phase and the integration phase (Hespelagh & Jemison, 1991; Shrivastava, 1986); after all, a poor choice of merger or acquisition partner will often result in a failing integration process as well. Chapter 3 will thus elaborate on both phases of the M&A process. Chapter 3 furthermore considers the contextual factors creating the acquisition’s context as these factors determine to large extent how the M&A process will look like. These are therefore the factors which influence in the end the final decision made in the decision making phase and subsequently how the integration process is executed.

Having obtained the knowledge presented in chapter 3 this knowledge is subsequently used as a reference guide in describing the M&A process of ABC and indentifying the points of improvement related to this process. This confrontation between theoretical perspectives and the subject, which Van Aken et al. (2007) have represented graphically in figure 2.2, can as was said already, be found in chapter 4 in the description of the process, the problems and the problem mess.

Figure 2.2: General structure of conceptual project design for the diagnosis in BPS projects (source: Van Aken et al., 2007). pp. 52)

From this problem mess is subsequently one problem chosen. The problem chosen generally is the problem having the biggest impact in solving as many underlying problems and which can still be influenced by the user. As will become clear in chapter 4, the doubts about ABC’s M&A process are confirmed, and it is argued these problems originate in the absence of a formal acquisition procedure. The available time to conduct this research however causes this thesis not to focus on the creation of such an acquisition procedure, but instead on a valuation based solution. It is argued that a proper valuation improves the acquisition process and chance on a successful acquisition in two manners. First a more accurate valuation of the target firm lowers the chance simply too much is paid for the firm; this holds for the valuation of the synergies as well as for the valuation of the costs. Second, an accurate valuation requires a clear elaboration of the benefits and the expected costs to be made in integrating the target firm; valuation thereby also provides direction for the integration phase and the decision-making phase, which in turn increases the probability the encountered problems are dealt with properly and besides increases the chance the anticipated synergies are indeed being achieved.
The valuation ABC currently makes is thus considered insufficient which leads to the following problem definition:

**ABC makes an insufficient valuation of the target firm by lacking to incorporate the synergies and integration costs.**

From this problem definition the following problem statement for this research is generated:

**How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?**

Given this research question, chapter 5 subsequently starts providing further information from literature on the topic of M&A valuation, thereby more content is given to the analysis and diagnosis part of the regulative cycle by Van Strien (1997) concerning the problem. Chapter 5 hereby especially focuses on the synergy side of the problem definition, while chapter 6 focuses on the costs side. This costs side analysis first identifies three types of costs and subsequently relates one type of these costs to the integration process as explained by Haspeslagh & Jemison (1991) through identifying the relation between important stakeholders and contextual factors influencing the execution of the individual activities in this process. Chapter 6 hereby too large extent uses the knowledge about the process and contextual factors as it is described in chapter 3. The data about the relations between the stakeholders, contextual factors and activities is however not found in literature and is therefore generated as explained in section 2.3 ‘Data collection’.

Except from the deliverables of the project, the execution of the research so far conforms to the use of the conceptual project design advocated by Verschuren & Doorewaard (1999) which addresses the following aspects (Verschuren & Doorewaard, 1999 in: Van Aken et al, 2007, pp 51):

- The subject of the analysis
- Theoretical perspectives applied in the analysis
- A confrontation between theoretical perspectives and the subject of analysis
- The deliverables of the project

The deliverables of the project are in fact being considered in chapter 7. In chapter 7 the ‘plan of action’ step from the regulative cycle (Van Strien, 1997) which is meant to “design the solution for the problem and the associated change plan” (Van Aken et al., 2007, pp. 14) is executed, hereby making use of the process as depicted in figure 2.3, which has been defined by Van Aken et al. (2007).

Figure 2.3: The key activities in actual design; synthesis-evaluation iterations (Source: Van Aken et al., 2007, pp. 85).

In designing it is important to translate the results of the analysis stage into specifications the design has to conform to (Van Aken et al., 2007). In the syntheses stage, these specifications are in turn translated into possible solutions; this translation is called the creative leap. The iterative character of the process induces the continuous improvement of the design until the design is assessed as
successful taken the specifications into account. In chapter 7 eventually a valuation based decision making tool is presented both incorporating the synergies and the costs. How this is done exactly can be read in chapter 7.

In the intervention step of the regulative cycle by Van Strien (1997) the findings of the plan of action step, i.e. the valuation based decision-making tool and thereby indirectly the improved acquisition process, are implemented. The size of the impact and accordingly the change plan, depend on the findings of the previous stages. However, since the implementation isn’t part of this project, the intervention as well as the evaluation stages of the regulative cycle will not be executed by the student. The deliverables of the last stages are therefore found in chapter 7 as well in the form of a brief explanation on how the tool is used.

2.2 Research type

In the methodological literature two types of research methods are distinguished: qualitative and quantitative methods (Van Aken et al, 2007). Qualitative research according to Van Aken et al. (2007, pp. 129) is focussed on “the discovery of qualities of things, that is, the properties of objects, phenomena, situations, people, meanings and events”. Quantitative research in contrast focuses on “the number or amount of these qualities” (Van Aken et al., 2007, pp. 129). In this particular research, conducted in order to identify a manner for ABC to value a target firm during the decision making stage incorporating the synergies and the costs resulting from the acquisition context, the focus thus isn’t on the strengths of the relationships between the context and the synergies and cost, but rather on the relationships itself; which contextual factors should stakeholders focus on during the integration process. This particular research can thus be considered as a qualitative research.

Verschuren & Doorewaard (2007) argue that in addition to the decision on qualitative versus quantitative, the researcher should also consider the decision between width versus depth of the research and whether the researcher likes to conduct a desk research or a more field oriented research. The latter question is however considered irrelevant because in my opinion the best method in terms of the research results it delivers, should be chosen; personal preferences shouldn’t be of any influence in this. The question on width versus depth, which is also related to quantitative versus qualitative, is however important. In a ‘width study’ the focus lies on generalizing the results, a ‘depth study’ focuses more on depth, detail and complexity as well as strong foundations and minimal insecurity (Verschuren & Doorewaard, 2007). For both stages in this study; focusing on the valuation of the target firm by considering the synergies and costs through the relationship between contextual factors and stakeholders on the one hand side and the integration process’ activities on the other side; a width study is more appropriate. After all, considering the fact no M&A project is the same, generalization of the result and thereby width, is necessary to keep the results relevant for several cases and not suiting one particular case with a specific setting.

Corresponding to these questions Verschuren & Doorewaard (2007, pp. 161) identify five main research strategies. For an elaboration of these strategies the reader is referred to Verschuren & Doorewaard (2007). The strategies identified are: survey, experiment, case study, grounded theory-approach and desk research.

Taken into account what is considered important for this study, i.e. qualitative research and width, a combination of desk research and an (expert) survey/interview is found to be most appropriate. An advantage of desk research is according to Verschuren & Doorewaard (2007) that the researcher very
fast has access to a lot of information. On the other hand a disadvantage is that this information is often not meant for the purpose of this research. In case of this research, the desk research is used in terms of a literature based study in which existing theories on the topic of M&A decision making and integration are reflected and combined to form a valuation based decision making tool thereby creating new insights (Verschuren & Doorewaard, 2007). Verschuren & Doorewaard (2007, pp. 202) in fact distinguish two variants of the Desk research with the possibility to use a mixture of both. The first variant is the literature study in which the knowledge from the literature is used as a source (knowledge source). The second variant, i.e. the secondary study, only uses the empirical data from this literature; the literature acts as a data source. A mixture of both, as Verschuren & Doorewaard (2007) suggest to be a possibility, would fit this research, however combining the knowledge of these knowledge sources causes the data to be inadequate for analyzing the model proposed in this study. This exactly resembles the disadvantage of a desk research as mentioned earlier. The data source thus can’t be found by means of desk research and should be generated. This is done by means of an expert opinion interview. The expert opinion herein is not only used to generated our data in terms of providing more substantive content to this model, i.e. the relations between stakeholders, contextual factors and the integration process; the expert interview is furthermore used to validate the foundations of this model. The combination of desk research with an expert interview thereby thus complements the disadvantages of desk research primarily through providing data that does fit our research. However, the desk research also complements the disadvantages of the expert interview. An interview following Yin (2009) has several disadvantages (Yin, 2009, pp. 102): bias due to poorly articulated questions, response bias, inaccuracies due to poor recall, and reflexivity meaning that an interviewee gives what interviewer wants to hear. According to Yin (2009) a reasonable approach to deal with this is to corroborate with other data, which is achieved with the desk research. The findings of the desk research furthermore provide content to the interview thereby making it better structured which contributes to the line of inquiry as advocated by Yin (2009) as well. The following section discusses the expert interview more elaborately, thereby treating more advantages and disadvantages.

2.3 Data collection

The topic of this research is considered to be quite specialist, the data and feedback to be used is therefore generated by interviewing experts in the field of post-merger integration. Where a survey according to Verschuren & Doorewaard (2007) is characterized by a relatively large number of respondents to retrieve the data; a survey is based on the assumption the judgement of a large number of respondents results in an outcome which comes close to the truth (Moore, 1987); a much smaller set of respondents suffices while making use of the expert opinions.

The question thus becomes who the experts are and how much experts should participate. According to Clayton (1997, pp. 380) “expertise exists in various forms and, although it may be difficult to measure exactly there are general characteristics of individuals who, in a given context, demonstrate a level of wisdom, insight, theory, practice, experience and analysis not found common to all individuals”. Clayton (1997) refers to these persons as ‘experts’. Given the topic of this study the experts to be interviewed for this research are found in the consultancy industry, specifically in the field of Post-merger integration. The Dutch consultancy landscape is made up by approximately twelve popular firms. Seven of them are randomly contacted and five of them were willing to participate by means of an interview. Eventually three out of five indicated the relationships, the two
other firms unfortunately didn’t want to participate in indicating the relationships as a result of time restrictions.

Interviews, according to Yin (2009) should be guided conversations, thereby fulfilling the two jobs of an interview, i.e. to follow a line of inquiry and to ask questions in an unbiased manner. The face-to-face interviews held, were conducted by introducing the research direction by means of a presentation on which the correspondents were free to comment. The advantage of a structured face-to-face interview over a telephone interview according to Verschuren & Doorewaard (2007) is that it enables the interviewer to react on body language by providing additional explanation or feedback and to correctly interpret the respondents’ answers.

After introducing the research, the respondents were asks to consider the stakeholders and factors and when necessary to remove and/or to add some. Finally, the respondents were asked to identify the relationships between these factors/stakeholders and the process as described by the literature, herein distinguishing between ‘generic’ and ‘case specific’ relationships. Generic indicating an influence which is present independent from the case itself. In contrast, a case specific relationship depends on the nature of the merger or acquisition.

Having obtained all feedback and data from the experts this feedback was compared and processed in the research. The data considering the stakeholders, factors and relationships were compared as well and processed in the final decision making model. The relationship-data is found in appendix 2 and 3. Having described the research methodology and the way information and data is obtained the following section discusses the quality of the research.

2.4 Research quality
Yin (2009) identifies four criteria, i.e. construct validity, internal validity, external validity, and reliability, as the most important research-oriented quality criteria. These criteria relate to research outcomes as being claims about the reality that come forth from research, besides they relate to the research process and the methods used; a reliable or valid process or instrument has the ability to yield reliable or valid results (Van Aken et al., 2007). In the next sections the quality criteria as identified by among others Yin (2009) and Van Aken et al. (2007) are explained in the context of this research shortly.

2.4.1 Construct validity
Construct validity according to Yin (2009, pp 40) is “Identifying the correct operational measures for the concepts being studied” or as Van Aken et al. (2007, pp. 163) like to refer to it: “the extent to which a measuring instrument measures what it is intended to measure”. In order to increase the construct validity Yin (2009, pp. 41) has identified the following measures. Although Yin (2009) specifically focuses on case studies, these measures apply for great extent to other types of research as well.

- Use multiple sources of evidence (source triangulation)
- Establish chain of evidence (allows an external observer to follow how conclusions are derived from the initial research)
- Have key informants review draft case study report
By following these measures the construct validity of the study is ensured. Source triangulation is used in both the problem identification and the identification of contextual factors, stakeholders and relationships used in the final decision making model. Literature is often combined with multiple interviews to correct and complete each other, hereby source triangulation is not only used within a source, i.e. between multiple articles or between multiple expert opinions, but between multiple sources as well, i.e. literature and interviews. The latter in fact already relating to the last point indentified by Yin (2009, pp 41); have key informants review draft case study reports. For the problem identification as well as for the findings concerning the decision making model, informants respectively experts on the field of post-merger integration gave their opinion on the preliminary research findings. The experts of course being in a more objective position in comparison to the informants of the firm under study. These Informants have to be critical towards their own performance or have a (secret) agenda. All in all, considering the research approach, method and data collection, the research meets the construct validity criterion.

2.4.2 Internal validity
Internal validity refers to “seeking to establish causal relationships, whereby certain conditions are believed to lead to other conditions, as distinguished from spurious relationships” (Yin, 2009, pp. 40). Internal validity is according to Yin (2009) only of relevance for explanatory studies and not for descriptive or exploratory studies. Although this study is mainly exploratory and descriptive, and thus internal validity following Yin (2009) isn’t relevant, Van Aken et al. (2007) relate internal validity to the regulative cycle by Van Strien (1997) which is used in this study as well. Van Aken et al. (2007) argue that the diagnostic phase which consists of the exploration and validation of the business problems and their causes does involve internal validity. When many of the existing business problems and their causes are found, this internal validity is high (Van Aken et al., 2007). Approaching the problem from different (theoretical) perspectives can help in identifying and explaining all the causes; considering the theoretical triangulation (Van Aken et al., 2007) used in this study as well the internal validity is considered high for the exploration and validation of the business problem.

Internal validity is further considered of relevance in this study for the creation of the decision making tool, specifically in the identification of the relationships between the post-merger integration process as defined by Haspeslagh & Jemison (1991) and the stakeholders and contextual factors. Here the internal validity concept is of relevance in the adequacy and the completeness of suggested relationships (Van Aken et al., 2007). By making use of scholarly literature from different disciplines and multiple expert opinions, the internal validity of these relationships is increased and considered acceptable; all possible influencing factors are covered. Nonetheless a short comment is placed here; the experts independently from each other indicated whether any stakeholders and factors were missing and identified the relationships between these factors/stakeholders and the process. Although in the first round of interviews neither comment was made by two or more experts, the author is aware of the fact that a second round of interviews where the findings of the first round are discussed could in potential have led to agreement and thereby a slight deviation of the current results. However, considering the fact the first round did incorporate already knowledge from literature and the expert-interviews, based on the majority rule, did not indicate an absence of stakeholders and factors the internal validity is still considered acceptable.
2.4.3 External validity

External validity defines “the domain to which a study’s findings can be generalized” (Yin, 2009). Yin (2009) emphasizes the use of replication logic in order to increase the external validity. The results must be tested by replicating the study in a second or third situation. Although especially the earlier stages of this study are not directly generalizable, the idea behind it, namely how to take into account integration problems from the post-acquisition phase in the decision making phase and finally the decision making tool are generalizable. After all, the problems identified are familiar in more enterprises as is proved by literature, besides the stakeholders, the factors, and the integration process are in general applicable to every firm. In case, for example a stakeholder isn’t present, the model is changed easily. Furthermore, the external validity is increased by letting important decisions on the relative weighting for both the factor relations and the activities in the process, to be made by the stakeholders thereby increasing the usage of the model in different acquisitions all having different contextual settings.

2.4.4 Reliability

Following Van Aken et al. (2007, pp. 158) “the results of a study are reliable when they are independent of the particular characteristic of that study and can therefore be replicated in other studies”. Or, as Yin (2009, pp. 45) explains: “the objective is to be sure that, if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions”. Van Aken et al. (2007, pp. 158) identify four sources of possible bias: the researcher, the instrument, the respondents and the situation. These sources of bias are briefly considered here in relation to this thesis:

- **The researcher**: A research is reliable in case the results are independent of the researcher who found these results (Van Aken et al., 2007). Two forms of bias are identified; van Aken et al. (2007) thereby follow Goldman (1999); these are hot biases and cold biases. Hot biases result from the influence of personal interest, motivation and emotions on the results. Cold biases result more from a subjective cognitive origin where personal motivation plays no role; for instance the researcher pays automatically more attention on what confirms his thoughts. Considering these biases some research instruments leave more room; the interview as used in this research being one of them, which makes this research vulnerable for bias and thus a lower reliability. However, Van Aken et al. (2007) also indicate that in case of interviews bias can be restrained by conducting a structured interview instead of a fully open interview. Given the fact that the interviews held were conducted following a structured face-to-face interview, which guides the interview as was argued for by Yin (2009) and explained in section 3.3, it is argued here that, although especially cognitive biases are hard to avoid, researcher bias is minimized as far as possible.

- **The instrument**: Different instruments available for studying the same phenomenon often result in diverging results. Research results however should be independent of the instrument used for study the phenomenon (Van Aken et al., 2007). Van Aken et al. (2007) therefore argue to use multiple research instruments, which thereby following Yin (2009) is called source triangulation. Also this study uses different sources, and thereby serves the reliability; for instance the factors and stakeholders found in literature are also checked by the experts in the field on the absence of others.
• The respondents: Also respondents are a possible source for bias in the reliability. Research results will be unreliable when the sample of respondents leads to results which substantially differ from the results when another set of respondents was chosen (Van Aken et al. (2007)). Following van Aken et al. (2007) three principles should be followed to improve reliability: Involve as many stakeholders involved in the problem area, in case of a large group of potential respondents and where you’re not interested in the differences between these respondents make a random selection to create the sample, and finally increase the number of respondents. Given these principles one comment is placed which might cause the reliability of this research to be somewhat lowered. This involves the number of experts involved in commenting on the stakeholders and factors selected from literature and subsequently in the identification of the relationships between these stakeholders and factors and the activities in the integration process. Data of three experts was used, originally more respondents were contacted however these didn’t have time to co-operate.  

• The circumstances: The final source of potential bias in the reliability as identified by Van Aken et al. (2007) concerns the circumstances the data collection is performed under; in the early morning the interviewee is in a different mood than in the afternoon. Van Aken et al. (2007) argue for an increase in reliability by conducting the interviews at different moments in time. Considering the schedule of the experts this kind of measure is quite difficult to influence. This could however by countered by increasing the number of respondents as well, however as said not all experts contacted had time to co-operate. The three interviews held were held around lunch and in the afternoon.  

Overall, considering the possible sources of bias and the way being dealt with them, it is argued by the author, although improvement is always possible, the results of this study are reliable. Considering the overall quality of the thesis and what is said about the four quality criteria, i.e. construct validity, internal validity, external validity and reliability (Yin, 2009) in combination to how this study is organized and executed, it is argued that the overall quality of the study meets the requirements of a decent academic business problem solving study. 

In the following chapter an introduction to the M&A literature is provided by means of a literature study which especially focuses on the M&A process, the integration types, and the contextual factors identified by different research disciplines.
3| M&A literature

The analysis of this research is started by first conducting a literature study on prior M&A literature. As explained in chapter 2 already, the knowledge generated here is first being used in the confrontation with ABC’s M&A process. The confrontation between literature and practice enables us to identify any potential problems in ABC’s M&A process which causes the doubts about the effectiveness to exist. The doubts which are the initial reason to conduct this research and which come forth from the integration strategy being followed considering the latest acquisition and the fact that an earlier acquisition unexpectedly has cost more time and money.

Then, when based on this confrontation the problems in the current M&A process of ABC have been identified and one problem is selected as the problem to be solved, again the content of this chapter is consulted. This time prior literature serves as input for the solution, in terms of how the solution should look like and what according to literature should be included. Based on the title of this research, i.e. “Merger and Acquisition decision making from a valuation perspective”, it is reasonable and correct to suspect that the solution to the main problem is found in ‘valuation’. The reader might therefore also suspect lot’s of financial theories on M&A valuation to be described here; this is however not the case. This research argues that a good valuation of the target firm anticipates on what might reasonably be expected to happen in the integration process. After all, during integration the anticipated synergies and thereby the value is or at least must be created and besides, during integration also the costs of integration are made. Considering again ABC’s negative experiences with an acquisition where integration has cost more than expected, it is argued that these costs in an accurate valuation should have been anticipated and incorporated.

The valuation of the target firm is, as argued here, thus considerably influenced by what happens during integration. What happens during integration is however in turn the result of the integration process and the context of the acquisition influencing the execution of the process, which determines in the end the extent to which synergies are realized and the height of the costs involved. This chapter therefore thus not focuses on financial theories, instead it describes the merger and acquisition process more elaborately in section 3.2 and the contextual factors which determine the context in section 3.3. First however a very brief introduction on mergers and acquisition in general is provided, explaining what mergers and acquisitions are, why they are done and endorsing the fact they often fail.

3.1 Introduction
Mergers and acquisitions are defined by a situation where two companies which formerly operated separately are combined into one new company. Mergers being a case where two more or less equal companies merge into a new entity and acquisitions referring to a situation where one company acquires a majority in the other (target) company (Hagedoorn & Duysters, 2002a).

Motives behind mergers and acquisitions are generally to be found in increasing market power, entering new markets, extending or adding products or technologies, horizontal and vertical integration, efficiency gains, resource sharing and enhancing capabilities (Hagedoorn & Duysters, 2002a; Ranft & Lord, 2002; Schweiger & Very, 2003). In comparison to in house development, acquisitions are by corporate executives seen as a quicker, easier and lower risk baring activity for the growth and diversification of their company (Datta & Grant, 1990); acquirers have almost
immediate access to the capabilities of the acquired firm (Schweizer, 2005). In industries around fast changing, technological highly complex products, companies relying on internal development are unable to keep up with the pace of change and therefore turn to M&As in order to stay competitive (Ranft & Lord, 2002). Especially this latter reason, that is to say the need of obtaining valuable resources such as know-how and technologies, has been of great influence on the latest merger waves (Schweizer, 2005).

Although the motives for M&A activity are often genuine, the results are also often disappointing; as Haspeslagh & Jemison (1991, pp.5) put it: “There is a common agreement that from the perspective of the acquiring company, many acquisitions fail to accomplish their purpose”. Stated differently, the value creation to be obtained isn’t reached. Many scholars argue that the projected level of value creation isn’t reached because of an inappropriate and failing integration process between the two companies (Pablo, 1994; Schweiger & Goulet, 2000; Schweiger & very, 2003).

Shrivastava (1986) and Haspeslagh & Jemison (1991) agree on this as well, however, they like to see it from a broader perspective where not alone the integration phase of an acquisition but the whole acquisition process is being considered. Shrivastava (1986) states for example that the reasons for this underperformance includes the poor choice of merger partners resulting from a poor premerger analysis, the lack of good strategy and as was already mentioned the lack of integration. Haspeslagh & Jemison (1991) address the disappointing acquisition experiences to the ‘pre-acquisition decision making’ and the ‘post-acquisition integration’ processes. By focussing on both processes companies would, according to Haspeslagh & Jemison (1991), gain new insights in how to effectively manage acquisitions.

3.2 Process description
Considering the disappointing acquisition experiences as a result of the pre-acquisition decision making and the post-acquisition integration processes (Haspeslagh & Jemison, 1991), this section describes the acquisition process. The acquisition process is among others described by Haspeslagh & Jemison (1991) and by Galpin & Herndon (2007). Haspeslagh & Jemison (1991) make use of four stages to describe the process; these stages which are graphically represented in figure 3.1 are: idea, acquisition justification, acquisition integration and finally the results.

Figure 3.1: Process Perspective (Source: Haspeslagh & Jemison, 1991, pp. 12).

Galpin & Herndon (2007) describe more stages of the acquisition process, namely: Formulate, locate, investigate, negotiate, integrate and motivate (figure 3.2). The essence of both descriptions is however the same and can be divided into the already mentioned pre-deal decision making and post-deal integration processes. Describing the process further will therefore also be done according to these two phases.
3.2.1 M&A decision making

M&A decision making starts with an idea resulting from an acquisition strategy or an opportunity, which generally is perceived to add value to the current business. Whether this value is indeed created is substantially influenced by the decision-making process through the quality of the acquisition ideas, the quality of the acquisition justification by explaining how the acquisition fits in the strategy thereby also giving direction to the integration and through what does and does not happen in the decision-making stage (Haspeslagh & Jemison, 1991). Haspeslagh & Jemison (1991) identify six criteria to evaluate the outcome of the decision-making stage, being: the quality of the strategic assessment, widely shared view of purpose (agreement on strategic logics), the degree of specificity in sources of benefits and problems, regard for organizational conditions, the timing of implementation and finally the maximum or walk-away price.

The decision-making process as described by Galpin & Herndon (2007) satisfies these criteria by first formulating a clear strategy and method including stakeholders and their roles in the decision-making process. This has to be done in advance since you will be too late at the moment this information is considered necessary (Galpin & Herndon, 2007). At the moment a firm has been located potential synergies are to be indicated. The conversations held in order to identify these potential synergies not only involve internal stakeholders but the target company as well. The target company may have a different perspective on the synergies identified during the internal analysis. Besides, involving the target company at this moment may already result in the identification of potential problems as well.

By executing these steps as elaborated by Galpin & Herndon (2007) the first criteria of Haspeslagh & Jemison (1991), i.e. the quality of the strategic assessment, widely shared view of purpose between the internal stakeholders as well as the target firm’s stakeholders and degree in specificity in sources of benefits and problems are met already to great extent.

More potential benefits and problems, the organizational conditions, timing of implementation and price criteria are especially met during what Galpin & Herndon (2007) call the ‘investigate’ stage. This stage involves a detailed thorough due diligence and should be conducted in terms of financial, operational, legal, environmental, cultural and strategic aspects (Galpin & Herndon, 2007). A more specific goal of the due diligence is to identify key findings and potential deal killers. Temptation to hurry the fact-finding by skipping parts and making assumptions in the often fast paced merger activity should be avoided in order to assure the quality of the assessment and thereby preventing damaging mistakes (Galpin & Herndon, 2007). Based on the findings an integration strategy is subsequently elucidated.
Galpin & Herndon mention three of the most frequently used integration categories:

- **Full integration**: All processes and functions are being merged and management decisions are to be made by the acquiring company with ‘best-practice knowledge’.
- **Moderate integration**: Only key processes and functions are merged. Strategic planning and control are centralized in the acquiring company, day-to-day operations stay functioning on their own.
- **Minimal integration**: Selected corporate and staff functions are merged, mainly to achieve cost benefits. The strategic decisions and day-to-day operations remain in the acquired company, leaving them in a great extent autonomous.

Which strategy to choose depends according to Galpin & Herndon (2007) on the issues identified earlier. For each issue its specific strategic goal must be determined and subsequently the integration strategy that fits all these strategic goals best should be chosen.

In deciding upon an integration approach Haspeslagh & Jemison (1991) use a methodology which is different at first glance but which is in essence the same. Haspeslagh & Jemison (1991) consider the strategic goals as well, however they relate the capabilities the firm is acquired for to two dimensions thereby providing a direction to which integration strategy is appropriate to follow. The first dimension is strategic interdependence need and the second dimension the organizational autonomy need.

_**Strategic interdependence need**_ refers to the interdependencies that must be created and managed between both firms in order to create value by transferring the strategic capabilities. These interdependencies cause the ‘boundary’ between the acquirer and the acquired firm, the imaginary line that distinguishes both companies, to be disturbed. This disturbance is likely to result in resistance of employees and managers of the acquired firm because they want to keep their own identity. Each type of strategic capabilities (i.e. resource sharing, functional skill transfer, general skill transfer) and combination benefit requires its own level of interdependence and thus determines how intense the disturbance of the boundary between both companies is to be. To minimize employee resistance and to ensure a proper progression of capability transfer, this should be adequately managed (Haspeslagh & Jemison, 1991).

Where strategic interdependence need represents the interdependence that is needed to transfer the strategic capabilities, the _**organizational autonomy need**_ dimension focuses on preserving the strategic capability that is to be transferred. An apparent paradox within the acquisition context is that the pursuit of strategic capabilities transfer may result in the destruction of just that capability that needs to be transferred; where capability transfer needs different degrees of boundary disruption, preserving the capabilities to be transferred needs boundary protection and thus organizational autonomy (Haspeslagh & Jemison, 1991). Haspeslagh & Jemison (1991) state that the manager should not deviate from the strategic task, i.e. creating value by transferring capabilities, unless the distinction of the organization and culture is essential to the preservation of that capability; especially if the acquisition is done because of that specific capability. When the manager decides autonomy to be most important, the manager should consider the location of the capability as well. A fairly isolated capability, for example in a subunit, may result in an autonomous subunit while the rest of the company can be integrated without any problems. In a situation where the
capability is widely spread throughout the company, the whole company should stay autonomous (Haspeslagh & Jemison, 1991).

Combining both dimensions results in figure 3.3 which depicts the four integration approaches identified by Haspeslagh & Jemison (1991). Acquisitions have different needs concerning the level of organizational autonomy and strategic interdependence; some prefer low strategic interdependence and high organizational autonomy, such an acquisition integration approach is termed ‘preservation’. A ‘Symbiosis’ integration approach is relevant for acquisitions in need for high strategic interdependence and a high level of organizational autonomy. Finally, acquisition integrations that call for a high strategic interdependence and a low need for organizational autonomy are defined as ‘Absorption’ integrations. Each of these integration types are according to Haspeslagh & Jemison (1991) a useful guide in the integration process. The ‘[Holding]’ type of integration is the result of an acquisition where the acquiring firm has no intention of integration and creating value except through financial transfers and risk sharing; these kind of acquisition should therefore not be seen as an integration approach (Haspeslagh & Jemison, 1991). The following will briefly describe each of the integration approaches in more detail.

Figure 3.3: Types of Acquisition Integration Approaches (Source: Haspeslagh & Jemison, 1991, pp. 145).

Preservation acquisitions
In preservation acquisitions management’s primary task is to keep the capability justifying the acquisition intact, a deterioration of this capability would impede successful value creation and thus the success of the acquisition (Haspeslagh & Jemison, 1991). Haspeslagh & Jemison (1991) state that nurturing the acquired firm is the best way to create value.

Symbiosis
Symbiosis is the most complex integration approach to reach for managers. Because symbiosis acquisitions need a high level of strategic interdependence as well as a high need for organizational autonomy, this situation approaches the paradox mentioned earlier the most; needing boundary preservation and boundary dissolution at the same time (Haspeslagh & Jemison, 1991). This requires a delicate balance, which is reached by first letting both companies coexist and then gradually increasing the interdependency. The latter is best be done by the acquired firm itself adapting to the new situation (Haspeslagh & Jemison, 1991).
Absorption

When value is to be created by the need of high interdependence and a low need of organizational autonomy, the integration approach is called ‘absorption’ (Haspeslagh & Jemison, 1991). In absorption all differences between both companies are eliminated in terms of operations, organization and culture. Fully consolidating all differences can cover a long time span, especially when the size of the companies to integrate increases. The key issue in the absorption integration approach is therefore a timing issue; this in contrast to the other types where the main issue lies in how much to integrate (Haspeslagh & Jemison, 1991).

Next to the need of organizational autonomy and strategic interdependence, which are believed to be the most important factors influencing the integration approach to be chosen, also the quality and size of the acquired company are influential factors that should be taken into account while deciding on an appropriate integration strategy (Haspeslagh & Jemison, 1991). When having chosen the integration strategy to follow and rounded of the negotiations successfully, the integration stage begins.

3.2.2 M&A integration

The M&A integration stage is the stage where the value intended to be created in the acquisition decision making stage is indeed to be realized. The integration process is an adaptive gradual process where two companies are learning to work together and which is depending on the type of the acquisition, the stakeholders involved, and the different types of capabilities that are to be transferred between both companies (Haspeslagh & Jemison, 1991). Although the progress of the integration process depends on the factors being mentioned, Haspeslagh & Jemison (1991) have on basis of their research been able to identify a generally applicable acquisition integration process which is independent from the acquisition type or differences in integration needs. This process is graphically represented in figure 3.4.

Figure 3.4: The acquisition Integration Process (Source: Haspeslagh & Jemison, 1991, pp. 107).

Where the purpose of the integration process lies at transferring strategic capabilities, thereby creating value and eventually thus improving the competitive advantage of the firm, the challenge of this process doesn’t lie at the transfer itself, but on creating the right atmosphere for supporting the transfer of the capabilities. This atmosphere consists of five influential factors which can and should be influenced in order to set the atmosphere right, namely (Haspeslagh & Jemison, 1991): reciprocal understanding of each other’s corporate organization and culture, mutual willingness of people to work together after the acquisition, capacity to transfer and receive capabilities, resources to foster
the atmosphere, and finally a cause-effect understanding of the benefits expected form the acquisition.

As a result of the need to create the right atmosphere and thus influencing these factors in order to transfer the capabilities, Haspeslagh & Jemison (1991) have divided the integration stage in two phases; the stage-setting phase and the value creation phase. Although this distinction may indicate a linear relationship between both phases, in practice their activities will overlap.

The stage-setting phase is the period after the agreement just before the actual integration of both companies and can take a few days to many months. The activities are meant to underpin the integration dynamic and facilitate the capability transfer (Haspeslagh & Jemison, 1991). This thus results in activities which to large extent influence the factors creating the atmosphere. Haspeslagh & Jemison (1991) have identified seven key tasks that have to be undertaken in order to set the stage. These tasks are to be executed simultaneously and have one clear denominator, being: communication. The seven key tasks are:

- Establishing interface management
- Putting operations on an even keel
- Instilling a new sense of purpose
- Taking stock and establishing control
- Strengthening the acquired organization
- Developing mutual understanding
- Building credibility up and down

Galpin & Herndon (2007), although not referring to a stage-setting phase, also describe some lessons that help in merger integration. Mentioned here are those lessons not being covered by Haspeslagh & Jemison (1991) at all, or covered by a more general class but not mentioned explicitly although considered important enough to be mentioned separately. These lessons are: Addressing ‘me’ issues quickly, applying defined clear leadership, and managing resistance at every level.

When the appropriate atmosphere for capability transfer has been created the value creation phase can start. Like the stage-setting phase which largely depends on the integration approach chosen i.e. absorption, symbiosis, preservation, also the way the value is created depends according to Haspeslagh & Jemison (1991) on the integration approach. The value creation phase is therefore described in relation to the integration approach chosen.

Creating value and the Preservation approach

The preservation approach is justified when the capabilities of the acquired company need protection in order to be retained. This results in an integration where the interdependence between both companies is low and autonomy is high. Carefully protecting the company for too many interactions with the acquiring company is thus required. Enduring efforts of protection however also stifle the value creation process. By means of subtle nurturing and careful learning both the required level of autonomy and interdependence on one hand side and value creation on the other side can be reached (Haspeslagh & Jemison, 1991). Haspeslagh & Jemison (1991) have identified four tasks which need to be managed correctly in preservation approaches. The first task is continued boundary protection; this should ensure the specific culture which contains the capabilities the acquisition is
done for to remain. Making employees and managers understand the differences between the companies is an important task herein. The second task involves nurturing the acquired company thereby accelerating the business development and thus the value creation, this is best be done by letting the acquired firm alone and letting them make use of the acquirers resources and general management skills; the acquired firm thereby develops better and faster. The nurturing process consists of two key elements; instilling a more ambitious vision and the practical support for implementing that vision. The third and fourth task relate to the underlying corporate strategy which most of the time is the reason for a preservation approach, namely exploring a new domain. The third task is to accumulate learning of two types: first, learning about the new business which is critical for subsequent bigger commitments in that particular domain and second, learning from the exposure to the new business which may be relevant for the current core business of the firm.

In domain exploration, acquisitions mainly involve small businesses; in such cases the fourth task is to champi

Creating value and the Symbiosis approach

The most challenging type of acquisitions for managers is the symbiotic acquisition type; managers have to deal with the needs to preserve a company’s culture which implies a high level of autonomy on one side, on the other side they need high interdependence which is necessary to create value (Haspeslagh & Jemison, 1991). According to Haspeslagh & Jemison (1991) the managers that succeeded in managing this contradiction did so by carefully steering an evolving pattern of interactions. The pattern begins with preservation of the acquired company; filtering all contacts by the gate keeping structure and emphasizing the capabilities the firm is acquired for (Haspeslagh & Jemison, 1991). In contrast to a preservation approach, more attention should be paid to management reactions in the acquiring firm and to the reporting of the acquired company to the acquirer. At the same time the acquiring company has to make some internal changes to be able to perform better in relation to the acquired company, they have to be able to receive and implement the transferred capabilities successfully. Following on this the acquiring company gradually encourages interaction between both companies, however the initiative of these interactions should still lie with the acquired company; this is the second step in the pattern and is referred to as reaching out rather than reaching in. After that, when the early interactions begin to deliver results, management can gradually establish the strategic control over the acquired company while the management of the acquired company deals with increased operating responsibilities; this process is called swapping operating responsibility for strategic control (Haspeslagh & Jemison, 1991). The operating levels are still separate entities each carrying their own responsibility, the acquirer determines however more and more the direction of both firms. The fourth stage and the ultimate stage the previous steps lead to is, amalgamating the two organizations; both organizations are here combined to become one new organization and must be done without losing the critical capabilities of the acquired company (Haspeslagh & Jemison, 1991).

Creating value and the absorption approach

In an absorption acquisition value is created by fully consolidating the acquisition. Absorption is chosen when synergies are created as a result of high interdependence of the companies and relatively little autonomy of the acquired firm. Haspeslagh & Jemison (1991) have identified four tasks in an absorption acquisition: drawing up a blue print for consolidating, managing the combination, moving to best practice and finally harnessing the complementarity between both
firms. Drawing up a blue print for consolidation involves a set of tasks focused on first planning and consequently implementing it. Drawing up a first blueprint for the integration should of course start already before the deal is closed, however it is not always possible to involve managers from both organizations into this process before the deal is closed, therefore plans may have to change after the deal is completed (Haspeslagh & Jemison, 1991). Five aspects for an integration plan are identified (Haspeslagh & Jemison, 1991): 1) choosing a single leader, 2) choosing the management team that will lead, 3) setting up a transition structure including specific task forces in the key integration areas, 4) managing to an integration calendar, and 5) communicating throughout the process. The second key part in the absorption approach is managing the combination or managing the rationalization and involves realizing the intended resource-sharing that justified the acquisition and which are planned in the integration blueprint. Generally, depending on the blueprint, a number of functions are to be merged. Moving to best practices, the third main task in the absorption approach, aims on installing the best practice in areas of complementarity within both firms. Where elimination of duplicate function in the organizations is a generally known cost benefit also the transfer of skills often results in substantial costs benefits. The final task of absorption is harnessing the complementarity between the two firms for long term advantages. Where moving to best practices focuses on making both firms more similar, harnessing the complementarity between the both firms is meant to reach the opposite, i.e. to capitalize on their differences. Leveraging the acquisition requires the ability to turn complementarity into a permanent advantage implying that companies have to accept the fact that differences will continue to exist (Haspeslagh & Jemison, 1991).

When the integration phase is successfully rounded off, management attention should according to Galpin & Herndon (2007) turn towards keeping employees motivated thereby sustaining and building long-term value; this in fact is, or at least should be business as usual for the company management and therefore is out of scope of this research.

Focussing again on the M&A process, decision making as well as integration, it can be concluded that the context surrounding the deal influences the process to a large extent. Because of the importance of the context the next section will provide the reader with even more insight in the context by discussing the influential factors identified by different fields of M&A research.

3.3 Contextual Factors
The context influencing the exact execution of the M&A process is made up of several factors. Insight in these factors is thus essential in understanding how to create the anticipated value and make the acquisition successful. Furthermore insight in these factors also reveals something about the difficulties which might reasonably be expected during integration. Thereby, insight in these factors is also essential for making an accurate cost estimation and to tell something about the extent the anticipated synergies are realized over time. In order to identify these contextual factors in a structured manner, different streams of research in the field of Mergers and Acquisitions are considered, thereby it is ensured the most important factors are covered.

Birkinshaw et al. (2000) identify the following research streams in M&A research; financial economics, strategic management, organizational behaviour and process perspective. Larsson and Finkelstein (1999) identify however the M&A fields: strategy, economics, finance, organization theory and Human resource management. Although the studies identify different sets of M&A fields, the
fields overlap in great extent; only the boundaries are set differently. What is seen as ‘Organizational
behaviour’ for Birkinshaw et al. (2000) is for instance covered by two distinct fields of research by
Larsson & Finkelstein (1999); specifically, ‘organization theory’ and ‘human resource management’.

The fields identified in this literature study are taken from both studies mentioned above. Selection is
done on basis of what is believed to be best by the author. Since the study focuses on the post-
acquisition integration process and not so much on shareholder value and accounting measures,
finance and economics are taken as one field, thereby following Birkinshaw et al (2000). Further,
considering the fact that both studies have identified the field of strategy, it is agreed upon to also
consider it here as general field covering several influential factors. The next two fields identified are
Organization theory and human resources; thereby Larsson & Finkelstein (1999) are being followed.
Reasoning behind this decision is mainly found in the fact that having detail and distinction in the
factors is desirable; of course being aware of the fact that it is often hard to make a separation
because these fields are related to each other in great extent. The last field selected here is the
process perspective, once again following Birkinshaw et al. (2000).

The identified M&A research fields providing factors influencing the outcomes of the integration
process are thus: Financial economics, Strategy, Organization theory, Human resources, and finally
the Process perspective. The financial economics field is however not being considered since this
research field doesn’t consider factors explaining why M&A’s fail to become successful and why they
can’t live up to the prior expectations (Datta, 1991). Instead, the financial economics field mostly
focuses on shareholder gain performance related aspects which is of little relevance in our study; our
study specifically focuses on factors influencing the realization of the anticipated value and the costs
involved in the process of realizing this value. Considering the remaining research fields, factors are
identified and discussed next.

3.3.1 Strategy
According to Larsson & Finkelstein (1999) and Birkinshaw et al. (2000) the strategy field of research
specifically focuses on M&A motives in relation to the performance. Of course the performance
aspects are also covered by the financial economics discipline, however in the strategy field,
performance is more focused on the individual company level instead of on the shareholder
(Birkinshaw et al., 2000).

A central aspect in the strategy literature is the concept of ‘strategic fit’ or the acquisition
relatedness, which is a conceptualization of the combination potential (Larsson & Finkelstein, 1999;
Hagedoorn & Duysters, 2002b). Relatedness thereby focuses on the business – products, market or
knowhow – of the firms and how synergies, e.g. economies of scale, scope and market power,
between both parties can be realized (Birkinshaw et al., 2000; Datta et al., 1992; Larsson &
Finkelstein, 1999; Shelton, 1988). Within the concept of combination potential, Larsson & Finkelstein
(1999) distinguish ‘strategic similarity’ and ‘strategic complementarity’. The former resulting in
synergies achieved through ‘economies of sameness’, being similar businesses that together have an
accumulating effect. The latter, strategic complementarity, resulting in synergies as a result of
business that are different in the beginning but that complement each other, also called ‘economies
of fitness’.

In addition, Hagedoorn & Duysters (2002b) mention the categorization of M&As on basis of
relatedness, making a distinction into horizontal M&As; acquisitions involving companies being
related to each other in terms of their products and services, vertical M&As; acquisitions in firms formerly having a buyer-seller relation, and the Conglomerate or unrelated M&As; acquisitions that are unrelated in their products and markets and which are thus a diversification of the firm’s strategy. This categorization is based on the industry aspect in relation to the companies’ product-markets. Hagedoorn & Duysters (2002b) however also like to take into account the technological relatedness of companies; referring to the degree of technological activity in a particular technology field by the individual acquisition partners. James et al. (1998) state that potential gains are to be made from better integrating technology issues in the M&A process. In the technological relatedness based categorization one can discriminate horizontal-, vertical- and unrelated acquisitions as well (Hagedoorn & Duysters, 2002b).

In line with what has been said about strategic fit already, Pablo (1994) completes by emphasizing the fact that before an integration design can be created the strategic intent of the acquisition must be understood. Strategic intent according to Pablo (1994) is based on: “the recognition of potential sources of synergy deriving from interdependencies between the value chains of the two organizations” (Pablo, 1994, pp.807). The focus here is thus on the critical skills and resources which are the basis for value creation and which need to be kept intact (Pablo, 1994).

To wrap up, the contextual factors influencing the due diligence process as well as the post-acquisition integration process identified by the strategy field of M&A research are the following:

- Product-market characteristic similarity/complementarity
- Technological knowhow similarity/complementarity.

The relative importance of the factors identified, depends on the motivation of the acquisition; in technological motivated acquisitions, the technological relatedness is for example more important. Having described the strategic research stream attention is now turned to organization theory.

3.3.2 Organization theory

The organization research stream in M&A’s primarily focuses on the integration phase of an acquisition. Culture clash influencing the acquisition success is an important topic in this dimension (Larsson & Finkelstein, 1999). Among others, Pablo (1994) emphasizes on one hand the importance of the organizational context in preserving the capabilities the firm is acquired for; on the other hand the organizational context should also support the value creation process during the integration.

Culture is an important factor in this organizational context. It is culture which configures an organizational system and thereby the effectiveness of the organization in its environment (Pablo, 1994). Cultural differences between the companies involved in an acquisition almost inevitably results in polarization, negative evaluations, anxiety and ethnocentrism, eventually leading to conflict and thereby negatively influencing the performance (Schweiger & Goulet, 2000). Organizational tolerance for cultural diversity is thus considered as one of the primary sets of issues in acquisition situations that influence integration design (Pablo, 1994).

An organizational criteria used by decision makers while deciding on the integration design Pablo (1994) has identified is, as was said already, cultural diversity or Multiculturalism. Multiculturalism is negatively related to the level of integration, meaning that when multiculturalism is low, the integration level pursued by managers is high because the acquired company should conform as
much as possible to the values, philosophies and practices of the acquiring firm (Pablo, 1994). The other two organizational elements identified by Pablo (1994) being of relevance in the level of integration decision are power differential and compatibility of acquisition vision. According to Pablo (1994), the level of integration chosen is low when the compatibility of the acquisition visions is high; this is because of the relatively low probability the acquired firm causes any challenges to the acquiring firm’s actions and goals. The power differential element is negatively related to the integration level decision; this implies that differences in size aren’t perceived as a basis of power. Instead, it is a factor influencing the attention management has for the acquisition (Pablo, 1994). Small acquisitions remain almost unintegrated because there is not much management attention. In contrast, large acquisitions receive more management attention because they have higher risk profiles and thus are more often integrated further, thereby enabling increased line authority (Pablo, 1994).

An important remark concerning Pablo’s research is however that it remains unclear whether the decisions made by the acquisition decision makers based on these factors are the right decisions; the research doesn’t give insight into best practices, thereby you are unable to get insight in whether the respondents fail collectively. Nonetheless, the factors identified are factors influencing the acquisition context and should therefore be taken into account.

Datta (1991) also identifies factors from the organizational context which influence acquisition success in the sense that ‘organizational fit’ influences the ease of integration. According to Datta (1991) ‘organizational fit’ consists of a number of factors, however the two most often mentioned and considered most important according to Datta (1991) are differences in management styles and organizational systems. The latter particularly referring to reward and evaluation systems, is however found to have a non-significant relationship with the acquisition performance and is therefore not considered to be important for this study.

Management styles is however of relevance and significant and is defined by Datta (1991, pp. 283) as “an element of the managerial or the subjective culture of an organization”; it consists of a number of sub-factors, among others the management group’s attitude towards risk, tolerance towards change, the decision making-approach, and control and communication patterns. Datta (1991) has found that compatibility of management styles of the acquiring and the acquired firm is important for superior performance. This finding is found to be true for acquisitions characterized by a high level integration as well as for low level integration (Datta, 1991). Hereby it is supported that a mismatch on management styles during the acquisition integration, which is often a stressful and uncertain situation, can results in conflicts, low levels of synergy realization and shrinking market shares and thus low performance of the combination. Especially the finding that this is true for low level integration acquisitions as well, is an important finding; apparently even with low level integration the influence of the management on the other firms management is substantial (Datta, 1991).

In contrast to Datta (1991) who states that ‘organizational fit’ is comprised of a number of factors in which differences in management styles is the most important and significant factor, Hagedoorn & Duysters (2002b) also state that ‘organizational fit’ is comprised of a large number of aspects. However, in their opinion similarities or differences in size of the companies is the most important aspect. Size, according to Hagedoorn & Duysters (2002b), covers many aspects of ‘organizational fit’.
For example, the multi-divisional structure versus single-divisional and formal versus informal routines. Large companies have organized them differently than small companies; size is therefore the ‘proxy’ which can be understood as to express a way of doing business (Hagedoorn & Duysters, 2002b).

Finally, Haspeslagh & Jemison (1991) see size and the quality of the firm as important factors influencing the M&A process as well. Experience learns that less profitable target firms (low quality) are harder to integrate successfully in comparison to more successful target firms. In identifying the quality of the firm, it is important to consider the nature of the low quality level; this may influence the integration approach substantially. In absorption acquisitions low quality management must for example be dealt with quickly but doesn’t necessarily lead to a problematic situation. In preservation acquisitions however, where the composition of the management normally should be contained, mismanagement would cause value destruction (Haspeslagh & Jemison, 1991).

Size (absolute and relative) influences the M&A process through issues which might occur during the integration. Acquisitions of small firms in relation to the size of the acquiring firm turn out to be less successful. Several reasons have been identified; among others the tendency to make the small acquired firm just like the bigger acquiring firm as a result of their power difference (Haspeslagh & Jemison, 1991). On a more fundamental level instead of pure size differences, the differences among firms have also to do with the stage of the business’s development or maturity in both a market and organizational sense (Haspeslagh & Jemison, 1991). Integration of firms having different stages of maturity is often problematic. Integrating family owned businesses into multinational companies is most of the time harder than integrating it with another family owned business where the cultures and organizational structures will be similar in most aspects.

Having identified size and quality as organizational factors influencing the acquisition process the search for factors from the organization theory making up the context has ended. To summarize, the following factors have been identified:

- Culture
- Size
- Quality
- Compatibility of acquisition visions
- Management styles
- Power differential

The next section describes the factors identified by the field of human resources which are believed to be of influence on the M&A process.

3.3.3 Human resource factors
The human resource literature has particularly emphasized the role of psychological issues, effective communication and career consequences that go along with mergers and acquisitions (Larsson & Finkelstein, 1999). According to Schuler & Jackson (2001) the level of implications of Mergers and acquisitions on human resources depends on the type and reason of the merger or acquisition. Accordingly they make a distinction on type in mergers of equals, mergers of unequals and two (major) types of acquisitions; acquisition and integration, and acquisition and separation.
The reason of the merger or acquisition is of relevance in deciding which factors will especially be of importance in a particular case; in for example a technology motivated acquisition the loss of key talent is of relative more importance (Schuler & Jackson, 2001). Differentiating between types and motive is important to identify and deal with the HR issues that will certainly occur. The main HR issues and therefore the factors considered to be of influence on the M&A process from the Human Resource literature on mergers and acquisitions are (Kay & Shelton, 2000):

- key talent (retention)
- key manager (retention)

### 3.3.4 Process perspective factors

According to Birkinshaw et al. (2000) the process perspective of M&A research is orientated towards managements actions meant to realize potential synergies. This research domain thereby covers and builds on aspects of the earlier treated areas of research. Further it is decided to cover factors that perhaps do not directly come forth from process theory but which at least directly relate to and influence the M&A process.

**Acquisition experience** for example is found to be an important influential factor in the M&A process. Haleblian & Finkelstein (1999) found that inexperienced acquirers have the tendency to generalize the acquisitions, thereby not differentiating between different types. Inappropriately projecting past experience on a current acquisition causes acquisition managers to make wrong decisions. In contrast, experienced acquirers do have the ability to discriminate between different types of acquisitions.

In addition to experience also **communication** during the M&A process is critically important (Schuler & Jackson, 2001). Schweiger & Goulet (2000) state that communication is one of the major interventions reducing uncertainty of people in a M&A-situation. By reducing the uncertainty, also the negative consequences of the uncertainty, such as stress, lowered productivity and turnover of the employees, are reduced. Schweiger & DeNisi (1991) emphasize the use of realistic communications herein, but state that also the symbolic value of such communications is of importance. According to them organizations communicating a ‘caring’ and ‘concern for their people’ attitude may expect increased employee commitment.

The next influential factor considered is the overarching process factor **speed**. Speed is defined by Schweiger & Goulet (2000, pp. 79) as “the time it takes to make changes in the buyer, seller, or both and thus integrate the firms”. Schweiger & Goulet (2000) have identified two streams of thought concerning speed. The first group emphasizes a slow integration of the target company; taking time to get to know each other’s culture and operations and consequently making the changes. According to Schweiger & Goulet (2000) this stance is probably taken as a result of an incomplete due diligence and planning process. The second group argues to integrate fast, thereby reducing the duration of the uncertainty of employees and of the firm in relation to its marketplace shareholders. Homburg & Bucerus (2006) argue however for an intermediate approach since in some situations high speed is beneficial while in others it may not. They state that benefits and disadvantages depend on the magnitude of internal and external relatedness of the company, more specifically, speed of integration is positively related to the success of the acquisition when the external relatedness is low and the internal relatedness is high; in case of high external en low internal relatedness, speed of
integration has a negative impact on the success of the acquisition. External relatedness defines the firms’ involvement in the market and positioning of their products in terms of price and quality; internal relatedness focuses on the firms’ management styles as being a part of the corporate culture, its performance and its strategic orientation (Homburg & Bucerius, 2006).

The final factor from the process theory concerns the role of risk in the acquisition process. Pablo et al. (1996, pp.723) suggest that “behavioural concepts of risk, specifically decision-maker risk perceptions and propensities, are key to understanding the process by which acquisition candidates are selected, the characteristics of pre-acquisition evaluation and negotiations, and approaches to post-acquisition integration”. Acquisitions, according to Pablo et al. (1996), are seen as one of the most important strategic management decisions since these decisions have big implications for the resources of the company. Besides, managers often consider outcomes to be uncertain and also the acquisition decision processes are characterized by uncertainty and unpredictability; decisions often are non-routines, should be made fast, are based on restricted information and are debated considerably (Pablo et al., 1996). Risk propensity and risk perception are, because of these acquisition characteristics, considered to have an important impact in the decision making situations encountered during the whole M&A process. Risk propensity is defined as the “cumulative general tendency of the individual to either take or avoid risks, and influences how a decision maker evaluates risk and decides what risks are acceptable (Pablo et al., 1996, pp. 725). Risk perception is defined as “an individual’s assessment of the risk inherent in a situation” (Pablo et al., 1996, pp. 725).

Because Pablo et al. (1996) have identified multiple ways of how risk propensity and perception influence the acquisition process, it is decided on behalf of readability, not to explain them further here; for more insight the reader is referred to appendix 1 or Pablo et al. (1996).

By having described the role of risk, the identification of factors considered to be of influence by the process field of research in the acquisition literature is finished. To summarize, the following factors are identified:

- Experience
- Communication
- Speed
- Risk

Summarizing the process perspective factors both ends the elaboration of the factors identified by the different M&A disciplines and also finishes the description of the M&A process as described by the M&A literature. The following section briefly reflects on the literature review conducted in chapter 4.

3.4 Recap and conclusion
The knowledge presented in chapter 3 serves two purposes in particular. On the one hand side the knowledge is used as reference guide in explaining ABC’s M&A process and to make a comparison between ABC’s process and the process as it should be organised according to literature. On the other side this chapter also serves as input for the solution to the main research question:

How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?
Valuation of synergies and costs asks for a better understanding of the M&A process, and in particular the influence of the acquisition context, in terms of the contextual factors, on this process. This chapter has increased this understanding.

In describing the process primarily two sources were used, i.e. the description of Haspeslagh & Jemison (1991) and the description of Galpin & Herndon (2007). The former although published almost 20 years earlier was considered as the main reference as a result of the clear distinction in the process activities of the three integration approaches. Besides, and this is also the reason, it is argued that two descriptions are considered sufficient, the Galpin & Herndon (2007) description doesn’t provide significant new insights; it is in my opinion primarily a new look and feel of the same process without making a clear distinction in the different integration types which is considered very relevant given the costs to be made as a result of the integration process and the context.

Considering the literature review and the identification of the factors in the context, it is believed the most important factors are described. It must be emphasised however, a clear and comprehensive research in literature providing all possible influential factors was not found, although this of course would have been very pleasant. The absence of such a study has been covered by focussing on four out of five M&A research streams or perspectives in literature, i.e.: Strategy, Organization theory, Human resources and the Process perspective. The fifth stream, finance and economics, was considered irrelevant for this study as it doesn’t provide any insight in the process or the context. By taken these streams as starting point and from there on considering the relevant literature, structure in both the process of finding these factors, as well as in organizing the factors, was ensured.

To wrap up: The knowledge as presented here is considered as a good reflection of the M&A literature on the subject of the process and the context of mergers and acquisitions. For sure other perspectives on the process as well as on the factors can be found, however the most important aspects are covered. Besides, as could be read in chapter three, the factors described here were discussed with M&A experts as well and also these experts confirmed the most important factors are covered and no other factors should be included.

The chapter to follow involves the analysis on the M&A process of ABC. This analysis thereby making use of the knowledge presented in this chapter as a reference guide. Chapter 4 furthermore presents the problem mess resulting from the confrontation between the literature and practice from which finally also the main problem of ABC’s M&A process is selected and the problem statement is formulated.
4| ABC’s M&A process

4.1 Introduction
This section describes the current situation of the acquisition process within ABC. In order to clarify the acquisition process of ABC, exploratory conversations with people throughout the organization are held. These people often made use of the latest acquisition to explain the process. Although such an example helps in understanding, it might also result in a slight bias in describing the process. However, if any bias is present at all, it is considered as not relevant because of the fact that the latest acquisition executed by ABC is the most up-to-date process; this also makes it the most relevant process and thus the main reference in describing the current situation of the acquisition process.

The acquisition process as identified consist of three phases, being: target identification, due diligence and integration. In elaborating these stages it is tried to describe the essence of the acquisition process, thereby describing the process in general, not taking into account any differences that undoubtedly are present between the individual acquisitions. Important is further to remember that although these three phases are distinguished, the distinction in the process itself is not so clear; it is in fact an ongoing process that can be aborted at any time. The distinction made comes forth from two important moments in the process; the decision to head into due diligence and the decision to acquire the company or not after the due diligence.

Being an ongoing process also makes describing the process challenging. As explained the two important decision moments create the phases, however the activities and factors influencing the process aren’t necessarily bounded by these phases; they are boundary crossing. Take for example the influential factor strategic additionality of the activity which will be explained later. This factor is in the first place a decisive factor in target setting, since it determines whether a company is an interesting target, then it is an important factor in the trade-off to be made and thus the decision to acquire the company or not. Finally, in the integration stage it influences the way the company is integrated. Because of this boundary crossing characteristic it is decided to focus in the first place on the process itself and what happens in these stages and then in the integration stage also the factors influencing the process are considered more elaborately. After all, it is here where their influence is best observed.

For now, we turn our attention to the description of how potential acquisition candidates are selected by ABC.

4.2 ABC’s M&A process
4.2.1 Target identification
In general ABC is familiar with three ways or situations in identifying a candidate firm. These three acquisition situations termed targeted acquisition, offered acquisition and bankruptcies, by the author, are described as follows:

- **Targeted acquisitions**: In what is termed a ‘targeted acquisition’ by the author, the potential candidate company is identified by ABC itself. This identification comes forth from a strategic need where ABC seeks reinforcement or expansion of their current business activity mix. Based on this desire potential candidates are identified and eventually, if at all, one company is selected for further action.
**Offered acquisitions:** The second type of acquisitions identified by ABC concerns acquisitions in which the candidate firms are being voluntarily offered to ABC by for example a bank, a corporate finance specialist or the director of the company himself. Reasons for offering can for example be found in family owned businesses where succession is not available. After having received an offer ABC considers whether the company is indeed an interesting company to acquire.

**Bankruptcy:** The final type of acquisitions identified are acquisitions that result from chances in the market where the most familiar one is a bankruptcy.

The distinction between the last two situations, i.e. offered acquisitions and bankruptcies, requires some additional explanation since the distinction may not be so clear; firms that went bankrupt may in some cases also be offered to ABC. The difference between both specifically comes forth from the focus on the conditions under which the acquisition is done, e.g. speed and emotions under the workforce. Bankruptcies typically involve a limited time frame of around a week because an official receiver has to generate as soon as possible money for the creditors of the bankrupt company. Offered acquisitions in contrast may take as long as is deemed necessary in order to find the most appropriate take-over candidate. Considering the emotions of the employees involved, in bankruptcies the employees have had to deal with lots of emotions however in case a candidate is found the employees taken over are most of the time relieved having maintained their job. In contrast, uncertainty is higher in offered acquisitions, since it often remains unclear what the plans of the acquiring company are exactly. Another important difference between both types is that in case of bankruptcies the acquiring party has a lot more influence in what exactly is acquired; this may be the whole organization or only the interesting parts of it. In situations where a company is being offered to ABC this is less common.

Target setting, especially in a targeted acquisition, is normally initiated by somebody in the organisation who sees the possibilities and advantages of acquiring a particular firm in light of the business which is currently exploited by ABC. Often these people are the directors of one of the companies in the ABC holding, who also will be responsible for the due diligence, the decision to acquire the firm and continuously the integration. These observed opportunities can most of the time be found in additional activities in (geographical) markets, products or in the knowledge and technology field.

Irrespective of how a target company comes under the attention of ABC, the most important aspect of target identification and target setting involves a general financial check and an analysis on the activities and/or knowledge of the potential acquisition candidate. The latter especially paying attention to the activities and/or knowledge believed to add value and the way these capabilities relate to ABC’s business model structure. Input for this initial strategic and financial analysis mainly comes from the market and possibly information available within ABC itself resulting from previous cooperations with the particular firm.

As a result of the initial analysis a ‘business plan’ is created, this business plan is subsequently taken to the tender/contract committee by the responsible director, where the plan is elucidated and the risks incorporated are explained. If the contract committee gives its approval the formal conversations with the candidate firm and the due diligence phase in which a thorough analysis of the firm is made may commence.
4.2.2 Due diligence

As was said already the due diligence phase is meant to perform a thorough analysis of the target company with the ultimate goal to determine whether ABC wants to acquire the firm, and if so, the price ABC is willing to pay.

How the due diligence is organized depends, according to ABC, to a large extent on the manner the candidate firm was identified, i.e. targeted by ABC, offered, or a bankruptcy. This influence is especially translated in the speed required during due diligence; in case of acquisitions that result from bankruptcies and other market chances the decision-making stage involves a limited time frame, which in turn results in the necessity of high speed due diligence which in fact means a selective due diligence. In all other cases, where ABC is searching for a potential candidate or the candidate offers itself, this time-restriction is not so much present and thereby enables ABC to work to a final judgement in relative tranquillity where the possibility exists to take a step back sometimes.

The due diligence process of ABC further relies on a so called “frontal approach” in which the disciplines legal, finance, HR, operations and ICT are said to be involved. Involvement and time of involvement of these disciplines may however vary; involvement is decided upon when support of the discipline is deemed necessary by the responsible manager. As a result the ICT discipline isn’t involved at all or in case they are involved, they aren’t present from the start, which causes them to lack sufficient power to influence the process on important topics. The same is true to a certain extent for the HR-department as well. HR is involved by means of a HR ABC director, involvement of other HR employees is minimal and when their support is deemed necessary it is often too late already to be of importance. Whether a thorough HR due diligence is performed is therefore considered doubtful by the author.

In relation to the (partly) absence of some disciplines it is striking, that although for example ICT isn’t involved, or is involved but far too late, ABC possesses a rough guideline in the form of multiple due diligence checklists, where next to the legal and financial disciplines, also the HR, Environmental and ICT disciplines are mentioned. Failing to appropriately incorporate these disciplines in terms of time of entry and manpower thereby indicates that the usage and effect of these documents may be considered minimal. Besides performing due diligence using multiple due diligence checklists; each discipline using a different list, indicates that a common strategy is absent and each discipline in fact operates as an independent stakeholder.

When considering the current situation in its most optimal form, i.e. a situation explained most advantageous for ABC which is a situation in which all disciplines are involved who are being mentioned by ABC, the disciplines are involved in the following manner in a due diligence research:

- **Legal:** The legal department is mainly involved in the due diligence for the examination of existing contracts with suppliers, clients and other stakeholders. Further they take care of the legal and fiscal aspects in relation to governmental requirements. Potential risks resulting from the acquisition are excluded by means of legal documents, disclaimers or are taken into account in the price negotiations.

- **Finance:** The financial discipline is involved in order to conduct a thorough analysis on the financial statements. Also the financial situations and planning of the projects in portfolio are being examined, thereby ensuring that no financial surprises will be acquired. In case of a
bankruptcy where a potential acquirer may pick the good projects, researching these projects is an important task.

- **Operational:** Operations is involved in the due diligence process for conducting an examination of the projects in progress. This examination focuses on the state of the project in terms of quality, and whether the schedule made is still accurate. This information is in turn corresponded to for example finance, who uses this information in the financial valuation of the firm.

- **HR:** The HR department is represented in the due diligence process of ABC by means of its directors, further no HR-employees are involved in the due diligence. The directors are involved in order to speak to key stakeholders of the organization thereby generating an idea about the company’s culture and when necessary to decide upon which persons to continue with. Stakeholders who are being approached for information about the target company are suppliers, clients, and key employees in the organization but also former employees. Conversations about who to continue with are held with the responsible director of the target company. During these conversations personal files are being considered; in case of staff functions the files are considered by ABC itself, in case of the more ‘general’ employees ABC relies on the judgment of the target’s director since he is assumed to know its employees best. Next to deciding upon how many and which employees to take over also their wages have to be considered; it has to be assessed whether the wages conform the wage-structures of ABC. When both structures do not align they have to be adjusted. Another important HR aspect involves the pension schemes of the employees. Because of the complexity related to pension schemes, they are, in case of probing questions, checked by ABC’s pension bureau. While performing the HR due diligence a due diligence checklist is being used, however since HR itself is most of the time not involved by means of its employees it is concluded that the assigned HR due diligence workforce is insufficient and therefore a thorough specialists’ analysis on for example the cultural fit can’t be performed. When HR personnel is involved, they are often involved too late to steer the process; their influence is thereby considered minimal.

- **ICT:** The ICT discipline isn’t always involved in the due diligence or they are involved relatively late. When they are involved the ICT department advises about quick-wins or low-hanging fruit. A more thorough analysis about the IT infrastructure, i.e. hardware and software, and potential benefits of implementing IT in terms of efficiency improvements of the firm’s processes is not performed.

Which ABC employees of each discipline, in practice thus mainly employees from the legal, finance and operational discipline, are sent to the target company in order to perform the due diligence is ad hoc decided upon. During the due diligence these employees constantly report to the responsible manager about their findings. The manager in turn constantly assesses whether the company is still worth acquiring. During this process the employees don’t only report about their specific discipline but also about their experience with the people and culture of the target company. The extent to which this reporting of employees about the ‘soft’ factors actually happens is however subject for discussion since these employees are mainly working with contracts and financial books; their contact with the employees is thus minimal.

Based on the findings of the due diligence eventually a decision is made by the management. The question ‘what do I get versus price ’ is the trade-off to be made. This decision is thus to a certain
extent not based on hard ratio’s alone but on a feeling management has about the target company as well. In this decision also the strategic aspect, i.e. the intended advantage resulting from the activities and/or knowledge of the target company in relation to the business model of ABC, is taken into account. These advantages, or the synergies, to be generated by combining both firms are however not being monetized. The trade-off to be made between what you get and the price to pay is thereby also at this particular aspect to a certain extent based on feelings; the intrinsic value of the company is determined and also the expected future cash flows are taken into account, however the synergies to be expected which determine to large extent the future cash flows and make the acquisition worthwhile, aren’t quantified in detail.

Because quantification of the expected advantages doesn’t happen, the feelings in the trade-off ‘what do I get versus price’ play an (too) important role. When these feelings are still good at the end of the due diligence stage and the ABC board of management has given its approval, it is decided to acquire the company and the integration stage can begin, otherwise the process is aborted.

4.2.3 Integration

In case the decision is made to acquire the target company, first the price negotiation starts, herein also taking the risks discovered in the due diligence stage into account. When subsequently price agreement has been reached and the company is formally transferred to ABC, the integration stage can begin.

The integration stage is influenced by several factors and is therefore considered to be different for every individual acquisition. Although an idea about the way to integrate the company is of course present within ABC, a detailed integration plan which is created in the due diligence phase and which can be used while integrating, is absent. The speed with which the due diligence has been conducted determines the extent to which a plan is available as well. Especially in case of an acquisition resulting from a bankruptcy, where time for due diligence is limited, an elaborate plan is often not created.

Instead of an elaborate plan the manager who will be responsible for the company after the formal change of ownership creates an (adjusted) business plan which describes how to obtain the stated goals and thereby (implicitly) how to deal with the integration. This business plan thus contains the rough lines of integration and is in fact already decided upon in an earlier phase before the formal decision to acquire the target. These rough lines of integration are the result of the firm’s characteristics, which are here termed “factors”. Although we could have decided to present these factors already in the earlier phases, it is decided to explain them there where they are most relevant; which is here in the integration stage. Next, the factors identified by ABC influencing the integration approach are discussed:

Strategic additionality of the activity: The strategic additionality of the activity considers how the activities of the target company fit in the activity mix of ABC, for instance the products, market and geographic reach. When the activity is new to ABC a different strategy is followed in comparison to the situation where ABC already conducts the same activity; in case of the latter especially the internal organisation of the activity becomes important.

Internal organisation of the activities: The internal organisation of the activities is particularly relevant when ABC already conducts the activity the acquired firm conducts as well. In this specific
situation both ways of organising the activity are considered and when necessary adapted to each other; the question then of course becomes which manner of organizing is best? Herein is overlap, which can also be considered as an aspect of the strategic additionality of the activities, important as well. Overlap considers the question whether both companies poach on each other’s territory in terms of product, market and other activities. If so, it has to be decided in the integration phase how to organize and divide the responsibilities between both firms. Overlap in resources is herein relevant as well. Especially staff and support functions of the organisations often have to deal with overlap. An example is the equipment service and services such as the vacancy fulfilment and tender subscription. These kind of activities will be organized centrally in the future; Jemison & Haspeslagh (1991) call this operational resource sharing.

Quality of the firm: The quality of the acquired firm before integration influences the integration because abundant or underperforming organizational parts and activities have to be terminated. Termination of these activities causes however to upset the daily activities of the organization. Providing the company some time to catch breath afterwards is in that case considered best by ABC since the hidden costs accompanying the lowered productivity as a result of uncertainty are thereby reduced. In case the acquired company performance is good and no further action is deemed necessary by ABC, the company will most likely stay independent and integration isn’t of relevance any more.

Company reputation in the market: Especially companies having a well known reputation and which are acquired by ABC are often kept independent. These companies are responsible for generating 50% of their turnover themselves, meaning that roughly half of their projects should not be initiated by a ABC related firm. Fully integrating the firm is therefore by ABC considered not wise to do.

Employee acceptance: An important factor influencing the integration process is the acceptance of the acquiring company by the employees of the acquired company; what is their attitude towards ABC. Also here the type of acquisition in terms of how the company became a potential candidate is influential. In a targeted acquisition for example the employees generally have a higher level of uncertainty and more hostile feelings towards the acquiring company. In an acquisition resulting from a bankruptcy, acceptance is generally much higher; in fact people are glad that somebody else wants to continue. By paying attention to the employees during due diligence already, support is created in the integration stage. Also propagating the caring identity of ABC by talking to people and providing answers on probing questions should increase the acceptance.

Finally the size of the target company and whether the acquisition is an acquisition focussed on the knowledge/specialty present in the firm are factors taken into account during the integration. In the latter the people who have the knowledge should be kept on board. Size differences, might herein also play an important role; these employees suddenly have to work in the context of an often much bigger firm to which they have to report and ask for permission which they aren’t used to.

Integration is by ABC most of the time spread over a longer time period where the activities of both companies will increasingly intertwine over time. An important aspect herein is the ‘position paper’ company executives have to write each year. The position paper replaces the business plan which in practice only described the current situation. Instead the position paper also includes a vision on the future and what that particular company wants to achieve for next year in light of the ABC corporate vision. By means of the position paper ABC’s management thus tries to direct the individual
companies to a certain direction. In practice this strategy takes a lot of time which means that an acquired company stays independent and self regulating to a large extent.

4.3 Problem identification

Based on the conversations and the description of the current situation above, a cause and effect diagram is made which is presented in figure 4.1. This diagram serves as what Van Aken et al. (2007) also call the problem mess. This problem mess shows the internal relations between the different problems that are encountered while orientating on the current acquisition process situation of ABC.

In this diagram the causes as well as the effects depicted in an uninterrupted box are identified as a direct result of the conversations. The problems in a dashed box are not directly indentified in the conversations but they form the crucial links between them. The resulting diagram shows how an acquisition is unable to reach its full potential, or even worse, how it turns into a direct failure.

During the conversations two aspects in particular were often observed; the ad hoc and opportunistic nature of the process and the role the acquisition initiator plays in the whole process. This initiator is often not solely the one who proposed the idea, but he is also responsible for generating the business plan and thus for the analysis of the target firm. Subsequently, he is to large extent also responsible for the decision to acquire the company or not. This manager is thus to say, involved in the whole acquisition decision making process and thereby also emotionally involved.

Being emotionally involved isn’t necessarily problematic as long as it stays on the level of devotion. However, once emotional involvement leads to distorted evaluations and assessments it does become problematic; Haunschild et al. (1994) refer to this ‘phenomenon’ in acquisition decisions as managerial over-commitment to targets, thereby having negative implications. Taking notion of the way one conversation partner characterized the acquisition process, i.e. acquisitions are pure emotions and when a director has a target company in his mind it will be acquired no matter what; it can reasonably be suspected that the acquisition process of ABC tends to be influenced by personal emotions, or over-commitment, as well. Personal emotions may next to a less thorough assessment, also lead to internal disagreement as a result of differing views concerning the observed advantages of acquiring a particular firm. Internal disagreement in turn results in low support during the integration, which subsequently results in integration failure.

Considering the diagram in figure 4.1 where the earlier mentioned aspects are termed ‘ad hoc/opportunistic decision making’ and ‘personal/emotional involvement acquisition initiator’ it is concluded that both are the result of the absence of a formal acquisition procedure. Missing such a procedure causes the acquisition process to be based on emotions instead of being (more) rational and ad hoc instead of planned.

In the same line of reasoning is missing a formal acquisition manager also considered problematic. Missing a formal acquisition manager causes an objective view towards the process itself and the target company to be absent. Furthermore missing such a position results in the need for ABC to transfer the responsibility to another manager after the decision is made; after all, the other manager has its own responsibilities. This transfer of responsibility in combination with the absence of a clear integration plan elaborating the integration vision causes the objectives of the acquisition and thereby the observed advantages of the acquisition to be missed.
Another problem comes forth from the often mentioned time restriction you have to deal with while performing for example the due diligence of a bankruptcy based acquisition; more specifically an elaborate due diligence is considered impossible by ABC given the time available. In other words, the time restriction causes ABC to execute a selective assessment in the due diligence phase. Following Galpin & Herndon (2007, pp. 14) who state that time restrictions may not result in “hurrying the fact-finding process, omit key parts of it or gloss over it in the rush to do the deal”, this selectivity of ABC is considered problematic. Although some people in ABC will not be convinced and keep hold on their opinion that it is impossible to conduct a full, thorough due diligence it is seen as a problem here. In a random project, time restriction is also no excuses for skipping some aspects. Instead, capacity is increased and the next time ABC ensures a proper preparation. This metaphor also holds for the due diligence; putting a formal acquisition procedure in place causes ABC to be better prepared. Having a procedure that can be followed thereby results not only in a more rational and planned process it also results in efficiency; you are able to perform a thorough due diligence in the same time frame.
Figure 4.1: Problem mess
4.4 Problem Statement

Considering the problem identification given in the previous section and the problem mess as depicted in figure 4.1, it is concluded that the problems identified can be traced back to the absence of a formal acquisition procedure. Defining a complete formal acquisition procedure would however be too extensive for this research considering the time available. It is therefore chosen in this study to focus on a specific aspect of the acquisition procedure, namely the value determination of the target firm.

Setting a correct value for an acquisition not only contributes to merger success directly because, as Eccles et al. (1999) and Schweiger & Very (2003) argue, many failures occur simply because of the fact that the company paid too much for the target firm; setting the correct value also requires a quantification in terms of money of the potential synergies observed to be created by the acquirer’s management (Ficery et al., 2007; Schweiger & Very, 2003). The latter thereby indirectly follows among others Haspeslagh & Jemison (1991) and Galpin & Herndon (2007), who state that a formal acquisition procedure starts with identifying how the target company exactly contributes to the already existing business and how both companies can mutually reinforce each other. Monetizing these potential synergies thus provides direction to the process; management now has not only to think about what advantages such as market expansion or product line extension the acquisition has, they also have to think about how much they want to achieve exactly by the acquisition and how they want to realize this.

The necessity of quantifying the observed synergies and especially how they want to achieve this, consequently also transforms the due diligence phase. In the current situation the due diligence process is often unclear and although here somewhat exaggerated it currently has the purpose to justify the acquisition instead of testing the target company on whether it could indeed contribute to the acquirer’s business as management believes it could in the manner they identified. Testing the target company in relation to the existing idea about the company and identifying obstacles and contextual factors that would pose a threat on reaching these synergies thereby makes the due diligence less ad-hoc, better planned and causes different disciplines to be involved; reaching an observed synergy is often a multidisciplinary corporate activity and thus also needs these disciplines to be involved in the due diligence.

Defining the goals, expected problems and the approach in detail, further improves ABC’s M&A process on the aspect of responsibility transfer as well. As can be seen in the problem mess in figure 4.1, the transfer of responsibility between the due diligence and integration phase is a critical point in the process because of the change in perception and vision of the managers being responsible for these stages. Although having one formal acquisition integration manager who is responsible for the whole process is of course still preferred, in practice this solution is however subordinate to the integration plan, i.e. also the integration manager would create an integration plan. Defining the acquisition integration goals and approach provides the manager responsible for the integration a clear consistent guideline which can be used to measure the progress as well. Any deviations from the defined integration vision and approach should of course be well-argued.

The focus on the value determination in this research thus improves the acquisition process through the input required in setting the right price, i.e. quantifying the synergies and defining the costs related to the approach used in realizing these synergies. This improvement of the acquisition
process thereby in the first place helps to create the M&A integration plan by means of the identification of synergies, obstacles and contextual factors that will influence the process benefits and the costs of obtaining these synergies. The valuation model thus creates better insight in the risks involved in the whole acquisition process and thereby in fact lowers this risk. On the second place it also improves the entire decision making on whether it is still beneficial to acquire the target firm through a more accurate delineation of the cash flows. Concluding, the problem definition of this research related to the ABC’s current situation is as follows:

**ABC makes an insufficient valuation of the target firm by lacking to incorporate the synergies and integration costs.**

Consequently the goal of this research coming forth from this problem definition is thus to design a value determination approach for ABC, thereby ensuring that the price paid better resembles the true value of the target firm herein incorporating the synergies as a result of the combination and the costs related to the process of obtaining them. The problem statement related to this research goal is defined as follows:

**How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?**

Answering this research question requires some sub-questions to be answered. These questions are:

- How is value defined?
- Which synergies can be identified?
- How to calculate the value?
- Which costs can be identified?
- How to incorporate the acquisition context

The following chapters will answer these questions shortly. Starting with chapter 5 answering the first three questions and thereby primarily focusing on the benefit-side of the research. Chapter 6 in contrast focuses on the costs side, by identifying and elaborating the cost factors of an acquisition and linking particularly one cost-type to the acquisition context. First however the benefit side of the valuation in chapter 5.
5| Valuing synergies

In this chapter it is explained what value of an acquisition actually is, where this value comes from, i.e. the synergy sources, and subsequently how this value should be calculated. Chapter 5 hereby thus particularly focuses on the benefit-side of an acquisition, which is one part of an accurate valuation. In order to explain these concepts literature is being used, starting with explaining what value actually is and which types of value are distinguished in case of an M&A; basic knowledge needed in negotiation to come to the optimal price for the target thereby ensuring in the first place the acquirer doesn’t pay too much for the target which is one of the reasons many acquisitions fail. Section 5.2 subsequently focuses on the synergy sources. These synergy sources are especially of relevance because these synergies are responsible for the extra benefits which are seen by the acquirer and which makes the merger or acquisition worthwhile. However these synergies aren’t always so easy to realize and that is where section 5.3 comes into play by answering how these synergies which are not always as easy to realize are valued. Section 5.3 thus directly relates to the different concepts of value as explained next.

5.1 Concepts of value

In order to value a firm in the context of a merger or acquisition it is important to understand the concept of value first. Eccles et al. (1999) define four types of value: the intrinsic value, the market value, the purchase price and the synergy value (figure 5.1). The following sections will very shortly explain these value types.

Figure 5.1: Types of value in a M&A context (source: Eccles et al., 1999).

<table>
<thead>
<tr>
<th>Intrinsic Value</th>
<th>Market Value</th>
<th>Purchase Price</th>
<th>Synergy Value</th>
</tr>
</thead>
</table>

**Intrinsic value**

The intrinsic value is according to Eccles et al. (1999) the most basic value and is based on the net present value of expected future cash flows. These future cash flows not taking into account any benefits or disadvantages from a merger or an acquisition. The cash flows are thus those cash flows as they would be if the company would stay independent.

**Market value**

The market value represents the value of the company in the market. Thereby the market value equals the share price of the company multiplied by the number of outstanding shares. The share...
price resembles what the market participants think the company is worth, taking into account all kind of opportunities already including a possible take-over (Eccles et al., 1999).

**Purchase price**

Eccles et al. (1999) refer to the purchase price as the price the bidder anticipates to pay for the company. In case of a stock exchange noted firm this represents the price per share shareholders are prepared to accept. The purchase price is also called the ‘anticipated takeout value’ (Eccles et al., 1999).

**Synergy value**

Synergy value is the final value type defined by Eccles et al. (1999) and represents the net present value of future cash flows including the benefits resulting from the combination of both firms. The purchase price already anticipates some of these benefits, however some improvements aren’t taken into account because the market who sets the purchase price lacks the information on certain topics; information the acquirer does have access to. All additional benefits resulting from the combination together make up the synergy value (Eccles et al., 1999).

As can be seen in figure 5.1 the elucidated values differ from each other. The difference between the intrinsic value of the firm and the purchase price is by Eccles et al. (1999) referred to as the value gap. Acquirer’s management should thus consider whether the value gap can be bridged by the anticipated synergies, i.e. whether the synergies to be created are more than the synergies anticipated by the target shareholders. When this is the case it is a good deal, in case it isn’t, the price to pay is according to Eccles et al. (1999) too high.

Brealey et al. (2006) refer to this value gap as the costs of the acquisition or the premium the buyer pays over the seller’s stand-alone value. In mathematical form Brealey et al. (2006, pp. 881) express it as follows:

\[ Cost = cash\ paid - PV_B \]

*Cash paid* is here the manner of payment or what in terms of Eccles et al. (1999) would be the purchase price. \( PV_B \) represent the present value of the target firm; Eccles et al. (1999) refer to this as the intrinsic value of the target.

Brealey et al. (2006, pp. 881) also present a mathematical form of the synergy to be created which they termed *gain*. Gain is the present value of the combination \( (PV_{AB}) \) minus the present value of the acquirer \( (PV_A) \) and the target \( (PV_B) \) firm separately. Gain, following Brealey et al. (2006, pp. 881) only exist when both companies are worth more together than apart. In the definition used by Eccles et al. (1999) gain would refer to the difference between the synergy value and the intrinsic value in figure 5.1.

\[ Gain = PV_{AB} - (PV_A + PV_B) = \Delta PV_{AB} \]

Whether the acquisition is a good deal can, according to Brealey et al. (2006, pp. 881), then be calculated by means of the following formula. When the net present value \( (NPV) \) is positive the acquisition should according to them go ahead.

\[ NPV = gain - cost = \Delta PV_{AB} - (cash - PV_B) \]
The NPV as defined by Brealey et al. (2006) is thus similar to what Eccles et al. (1999) refer to as the value to acquirer shareholders in figure 5.1. What figure 5.1 however doesn’t show and the formula does, is that synergy value in figure 5.1 can thus in fact be lower than the purchase price; the NPV is in that particular case negative. In relation to this, Sirrower (1997) argues that when premiums are paid the likelihood the acquisition creates value decreases significantly.

5.2 Sources of synergies
Mergers and acquisitions thus should according to Brealey et al. (2006) be undertaken when the synergy value is higher than the purchase price. Calculation of the synergy value is generally based on several types of synergy. Schweiger (2002) identifies four types: Cost synergies, revenue synergies, market power synergies and intangible synergies, here it is however decided to follow Eccles et al. (1999) since the classification of Schweiger (2002) includes more overlap, e.g. market power synergies are in fact revenue synergies as well. Besides, Eccles et al (1999) are considered to be more comprehensive, they identify five types of synergy: cost savings, revenue enhancements, financial engineering, and tax benefits.

**Cost savings**
Cost savings are the most common source of synergies and besides often the easiest to estimate (Eccles et al., 1999). Cost savings can be found in for example eliminating jobs and facilities or result from economies of scale. Advantages from economies of scale are most likely to be found in horizontal acquisitions where the primary processes of both companies are similar to large extent. However, as Eccles et al. (1999) argue, projections of cost savings are easily overrated as a result of the following three problems:

- Definitions of cost categories vary between firms; as a result some costs in a certain category aren’t possible candidates for cost savings and the acquirer thus overestimates the costs savings to be realized.
- Depending on the organizational structure costs are incurred at different places causing acquirers to assume more corporate and divisional costs to be saved than in practice is possible.
- Positions are often saved, however eliminating the people on that position is a lot harder.

Next to the fact that cost savings are easily overrated, achieving the anticipated savings is often tough as well. The longer it takes to realize them, the less they contribute to the NPV (Eccles et al., 1999).

**Revenue enhancements**
In case both companies together achieve higher sales volumes than they independently could, Eccles et al. (1999) refer to revenue enhancements. Revenue enhancements are however hard to estimate because they are influenced by external factors; factors which are in turn hard to influence by the firms’ management. In some cases these revenue enhancements are extremely difficult to predict; companies thus often discount them heavily thereby balancing the uncertainty or they don’t even consider them at all while calculating the synergy value. Nonetheless, revenue enhancement may results in higher synergy value through (Eccles et al., 1999):

- Adding superior and/or complementary products to the acquirer’s distribution channel.
- Using the target’s distribution channel for the acquirer’s products.
- Gaining sufficient critical mass thereby being able to attract extra revenue.
Process improvements

Process improvements are the results of transferring best practices and core competencies from the acquirer to the target and vice versa (Eccles et al., 1999). Eventually this results in revenue enhancements and cost savings.

The synergies resulting from cost savings, revenue enhancements and process improvements, are as said already easy to identify but hard to quantify accurately (Eccles et al., 1999). The assumptions underlying these synergies should therefore be researched in dept before incorporated in the acquisition decision.

Financial engineering

Sometimes also by means of financial engineering the company can create synergy benefits out of an acquisition (Eccles et al., 1999). Examples are for instance benefits from pooling working-capital finance requirements and surplus cash. Further also synergies can be created from refinancing the target’s debt at the acquirer’s borrowing rate.

Tax Benefits

Synergies related to tax can according to Eccles et al. (1999) be distinguished in two parts; tax ‘structuring’ and tax ‘engineering’. Tax structuring makes the deal possible and has the goal to avoid tax costs related to for example capital transfer and change-of ownership provisions. After the structuring the engineering takes places; common seen synergies as a result of engineering are for example the transfer of intellectual property to a low-tax subsidiary and pushing debts to high-tax subsidiaries. Eccles et al. (1999) argue however that although tax synergies can be real benefits, companies should acquire a company solely based on strategic grounds, besides, according to Eccles et al. (1999), integration problems can overwhelm the financial and tax benefits.

The different synergies can as explained in this section be distinguished on basis of their source. It also became clear that one synergy is easily realized while realizing the other involves more uncertainty. In order to account for this uncertainty the next chapter describes how to value the anticipated synergies.

5.3 Synergy valuation

As was explained above the decision to acquire the target company depends in fact on the additional positive cash flows generated as a result of combining both firms. The investment decision to be made should thus take these cash flows into account in terms of their present value. But how to calculate this present value? In order to answer this question, it is decided to first provide some general information on the topic of valuing a general investment.

Valuation is, following Khholm Smith & Smith (2004, pp. 217) guided by two principles: “a dollar today is worth more than a dollar received in the future” and “a safe dollar is worth more than a gamble with an expected payoff of one dollar”. Calculating the present value of the cash flows thus takes their timing and their riskiness into account. Basic finance and accounting literature learns that the present value (PV) can be calculated by the following discounted cash flow formula (Brealey et al., 2006).
Throughout literature different notations are used, in this research is chosen the notation also used by Brealey et al (2006). From now on, other authors’ formulas are adjusted to this notation in which \( t \) is the time, \( C_t \) represents the cash flow at time \( t \), and \( r_t \) the cost of capital.

The discounted cash flow formula as presented here includes the cash flows into infinity. Since valuing such cash flows is impossible, it is often chosen to forecast the cash flow for a fixed horizon, typically 5 to 10 years and subsequently adding a terminal value, which is also known as the continuing value (Bruner, 2004; Schweiger & Very, 2003). The continuing value concept can be explained as the cash flow that is generated when the investment is sold after the projected horizon (Kiholm Smith & Smith, 2004). Incorporating the continuing value (CV) in the discounted cash flow formula results in the following:

\[
PV = \sum_{t=1}^{T} \frac{C_t}{(1 + r_t)^t} + \frac{CV_T}{(1 + r_T)^T}
\]

Where \( CV_T \) can for example be calculated by means of the following formula where \( V_t \) is the value at time \( t \), \( r \) is the discount rate and \( g \) the expected growth rate of the cash flows:

\[
\frac{V_t}{C_t} = \frac{(1 + g)}{r - g}
\]

The equation, following Kiholm Smith & Smith (2004), calculates the cash flow multiplier. \( CV_t \), or the continuing value, equals cash flow multiplier times the cash flow in the last year of the explicit value period. The formula for the multiplier presented above assumes however that after the project horizon \( T \), the cash flows grow with the same growth rate, \( g \), each year; the cash flows are expected to be stable for the upcoming years. However, considering the differing characteristics of the different synergy sources of an acquisition, some will have a continuing value and others won’t.

Whether a continuing value is incorporated in the present value calculation and if so, which multiplier is used, is because of these differing characteristics left to the end user. When considered useful the formula presented above can be used, other continuing value calculation methods are considered useful as well, as long as they are substantiated properly.

The present value of an acquisition thus depends on the project horizon, the time the cash flows resulting from the synergies and costs are generated and finally the risk factor. The timing of the activities in the integration plan thus directly influences the present value of the acquisition target; the longer it takes to realize the anticipated synergies the less they contribute to the present value.

The cash flows resulting from the synergies further also involve risk. Following among others Eccles et al. (1999), especially the synergies resulting from cost savings, revenue enhancements and process improvements are easy to identify but hard to quantify accurately. Bruner (2004) therefore argues to value the different types of synergy consistent with a discount rate resembling the risks of this synergy. Which discount rate to use can according to Bruner (2004) be decided by means of figure 5.2:
Bruner (2004, pp.333) further argues that directly adjusting the cash flows by “giving the synergy a haircut” as he likes to refer to it, isn’t a good idea because adjusting the cash flows for uncertainty in terms of money is done often more arbitrarily than selecting a discount rate. The ‘haircut’ method, according to Bruner (2004) is more prone to analysts’ biases.

In this research, thereby following Steffens & Douglas (2007) it is however argued that selecting the discount rate directly is as arbitrarily as giving the cash flows a haircut. This research therefore makes use of the ‘first Chicago method’ (Kiholm Smith & Smith, 2004; Steffens & Douglas, 2007) which considers several scenarios (optimistic, most likely, pessimistic) for the cash flows combined with the probability that a certain scenario will occur. Making use of scenarios encourages the analyst to think about the range of possibilities (Kiholm Smith & Smith, 2004), which exactly is the purpose of this research.

The weighted averages calculated from the scenarios and their probabilities are subsequently discounted in order to calculate the net present value. The discount factor used in calculating the net present value can be the same for every synergy source since synergy-source-specific-risk is accounted for by the probabilities and the height of the expected cash flows in these scenarios. Highly uncertain synergy cash flows will for example have scenarios where the height of the expected cash flows in the different scenarios differs a lot and where the probabilities will be quite similar, relatively certain synergy sources in contrast are characterized by the opposite. The level of the discount factor used to discount the weighted average cash flows should be the discount factor used by ABC in a risk-similar project or the true cost of capital (Kiholm Smith & Smith, 2004). Considering the discount rates used by Bruner (2004) in figure 5.2 this discount factor probably lies around the firm’s weighted average cost of capital (WACC).
5.4 Recap and conclusion

Valuation of the target firm, we may conclude, should thus take into account the future cash flows of the target firm after the acquisition thereby incorporating the anticipated synergies. The increase in future cash flows as a result of combining both firms can be found in cost savings, revenue enhancements, financial engineering, and tax benefits. Especially the first three synergy sources are, according to Eccles et al. (1999), hard to forecast accurately. They therefore recommend to scrutinize the assumptions underlying the numbers; how this should be done is however ignored. The only advice they give relates to the discount rate used to adjust for the risks of the investment over time.

It is believed here that the best way to scrutinize these assumptions is to explain how these synergies are created and consequently providing a detailed plan of action on how and when to achieve them exactly. It is argued further that the requirement of defining the costs related to the activities of this detailed plan of action ensures that the plan is indeed created thereby decreasing some of the uncertainty involved.

By defining the integration costs, the obstacles and contextual factors, which will influence the integration process and thereby the process of achieving the observed synergies, are indentified and taken into account. The gained insights in the risks and the corresponding actions increase the chance on achieving the anticipated synergies and eventually thus increase the chance on success of the acquisition. This insight is subsequently translated by the stakeholders in the probabilities and the level of the cash flows of the scenarios in the ‘first Chicago method’ (Kiholm Smith & Smith, 2004; Steffens & Douglas, 2007). Besides, defining these costs also contributes to a better cash flow assessment itself since these costs are part of the investment next to the amount paid to acquire the target. The integration costs thereby lower the cash flows, make the maximum acquisition price more accurate, and the decision to acquire the firm or not more realistic.

A solution to the research question; “How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?”, thus contributes to M&A success in two ways. In the first place by providing guidance in the integration process and on the second place by decreasing the probability the acquirer pays too much for the target firm.

Researchers, including Eccles et al. (1999) and Brealey et al. (2006), however often fail to accurately identify the costs part of the research question although they are aware of spending large amounts of money (costs) on problems related to integrating both firms. Their awareness is proven by for example the following sentence: “The difficulty of integrating two companies can overwhelm purely financial and tax benefits” (Eccles et al., 1999, pp. 62). Also Koller et al. (2005), who do notice integration implementation costs, are aware of the fact that large amounts of money are spend; they state that implementation costs can be equivalent to a full year of synergy advantages or more. However, apart from recognizing the fact these costs exist, Koller et al. (2005) further pay no attention to these costs at all. The integration costs we may conclude are by researchers thus not taken into account while determining the synergy value of the company or are taken into account without having much detail and precision.

In terms of Brealey et al. (2006), who don’t take explicit notion of the integration costs, incorporation of these costs would result in a lower net present value. The Net present value formula of Brealey et al. (2006, pp. 881) should thus be adjusted for these costs. Adjustment would result in the following
formula, in which \(i.costa_b\) stands for the integration costs related to combining the acquiring firm A with target firm B:

\[
NPV = \text{gain} - \text{acquisition cost} - \text{integration costs} = \Delta PV_{AB} - (\text{cash} - PV_B) - i.costa_B
\]

Since, it is believed by the author that the possible synergy sources and their valuations are explained enough in the previous section; the research will from now on especially focus on the integration costs related to achieving the synergies of mergers and acquisitions.

Next to the integration costs, another kind of costs closely related to the integration costs, remains underexposed very often as well, these are the negative synergies. The underexposure of the negative synergies in the literature is seen for example in the formula of Brealey et al. (2006) as well where these negative synergies are implicitly taken into account in the term ‘gain’ by means of the remark that gain only exists when the two firms are worth more together than apart. Taken the negative synergy costs, or from now called dis-synergies into account in such an implicit manner causes however a lot of dis-synergies to be easily overlooked thereby not getting the attention they should get. After all, they directly influence the value of the firm, but also indirectly influence the integration costs through the measures needed to prevent and deal with them.

Considering the costs, the approaches as being defined by Haspeslagh & Jemison (1991), are used as framework. Each M&A, as was explained in Chapter 3, has its specific characteristics and accordingly each M&A also has a different integration approach (Haspeslagh & Jemison, 1991), i.e. preservation, symbiosis, absorption and to minimal extent holding. For the holding approach no actions are undertaken to integrate the target firm; benefits specifically result from tax benefits and financial engineering thereby causing almost no costs to be made. The holding approach is therefore not taken into account further. The other approaches, do incur costs. It is however argued by the author that the costs will differ per approach. This is illustrated by means of the following example: Company ‘A’ wants to acquire company ‘B’; the cultures of both companies substantially differ from each other. In case the best integration approach in order to realize the anticipated synergies is absorption, the costs involved in combining both firms on the aspect of culture would be substantially higher in comparison to an approach where preservation is preferred. Preservation enables the cultures of company ‘A’ and ‘B’ to exist next to each other. Preservation of company ‘B’ would thus cause the costs of protecting the culture of company ‘B’ to be higher in comparison to a situation where absorption would have been needed. The costs related to a symbiosis approach will in all cases lie somewhere in between the costs of preservation and absorption.

It thus can be concluded that the contextual factors and the integration approach substantially influence the costs. How the costs related to M&A’s are organized, is researched further in the following chapter.
Where chapter 5 specifically focussed on the definition of value and the benefit side of the valuation this chapter focuses on the cost side of the valuation. Where synergies increase the value of the target firm, costs decrease this value. In setting an accurate value for the target firm costs are thus equally important as the synergies. Besides and that is perhaps even more important the costs are to large extent the result of the acquisition’s context. How this relation with the context is organized, is explained in this chapter as well; this chapter thereby contributes not only to a better understanding of value it also contributes to a better understanding of the M&A integration process, the context, and thereby indirectly to a more accurate value.

6.1 Introduction to M&A costs-structures
Costs related to the integration of a target firm can, as argued by the author, be divided into three subgroups or cost-structures. The first group consists of the costs related to the destruction of the intrinsic value of the firm such as revenue reduction and process deterioration which result among others from the uncertainty involved in mergers and acquisitions and failure in operational implementation and integration. Revenue reduction for example occurs when customers (temporarily) leave and process deterioration is for instance the result of key talents and managers leaving the firm subsequently resulting in lower productivity and thus a lower turnover. Eventually each of them resulting in a lower company value (Galpin & Herndon, 2007; Puranam et al., 2009; Schuler & Jackson, 2001; Schweiger & Very, 2003). “Revenue reductions” and “process deterioration” are thus the direct counterparts of the synergies “revenue enhancements” and “process improvements” and are termed negative synergies (Schweiger & Very, 2003) or “dis-synergies”. The negative change in value as a result of among others the revenue reduction and process deterioration is depicted by the red line in figure 6.1; indicating the destruction of the firm’s intrinsic value (Schweiger & Very, 2003).

In figure 6.1 the dis-synergies and synergies as a result of an acquisition are depicted as a decrease respectively increase in the value in comparison to the ‘normal’, intrinsic value of the firm. The intrinsic value is in figure 6.1 depicted by the grey line, while the black line represents the value as a result of the acquisition. The total dis-synergies and synergies are shown as the orange respectively green areas.
The dis-synergies (orange area) negatively contribute to the success of the acquisition and should be managed against (Schweiger & Very, 2003) thereby minimizing them as far as possible and ensuring the temporary negative effects of the acquisition don’t become lasting. Some dis-synergies, like a customer leaving because the company has become a competitor as a result of the acquisition, are however lasting or fixed dis-synergies already and can’t be undone. Though, the depth and duration of the more temporary or variable dis-synergy cost structures depends on measures taken to reverse these negative effects.

Notice that, considering the fixed and variable dis-synergies, figure 6.1 provides a somewhat distorted view. The line representing the new value is the result of adding synergies and dis-synergies; in fact the synergies realized will be bigger than the green area in figure 6.1 since these synergies also have to compensate for the fixed dis-synergy loss as can be seen in figure 6.2. Figure 6.2 shows the composition of the dis-synergies over time; the orange area representing the structural fixed dis-synergies and the yellow area the variable dis-synergies. The variable dis-synergies have to be managed properly, thereby ensuring they won’t occur and when they do occur they will be minimized in depth and duration and prevented from becoming fixed.
As was indicated already to some extent, dis-synergies can during the valuation stage be divided further along two variables; their predictability of occurrence and the predictability of their costs over time. In figure 6.3 these two variables are combined to define four types of dis-synergies; the fixed dis-synergies and three types of variable dis-synergies which are called: probability variance -, flow variance -, and full variance (variable) dis-synergies.

Figure 6.3: Dis-synergy types.

Fixed dis-synergies as they are defined here are characterized by a very high predictability of occurrence. Besides, the heights of the costs related to these fixed dis-synergies are very well to predict in advance. In contrast, variable dis-synergies are surrounded by high predictability of occurrence and a low level of insight in the costs (flow variance), low predictability of occurrence and a high level of predictability of the costs (probability variance), or a low predictability of occurrence and a low predictability of the costs (full variance). Flow variance dis-synergies for example are those dis-synergies of which you’re almost certain they will occur but you don’t have accurate insight in how much it will cost. Probability variance dis-synergies are those dis-synergies of which you know how much they will cost, but it’s relatively uncertain they will indeed occur. For full variance dis-synergies holds that it is uncertain they will occur and their impact in terms of costs is uncertain as well.

As was said, the variable dis-synergies have to be managed properly, this means in the first place preventing them from occurring and when they do occur to minimize them in depth/height and duration as far as possible. Prevention and recovery measures thereby also relate to the variables along the axis of the quadrant in figure 6.3, i.e. predictability of occurrence and predictability of cost-height over time (cash flows). After all, prevention measures reduce the risk of occurrence and counter measures focus on reducing the total costs of those dis-synergies which do occur.

The costs related to these ‘prevention and counter measures’ minimizing the negative effects of the variable dis-synergies are represented in the second cost group; the overhead costs. Next to the costs of these measures also the costs related to the preparation of the context or atmosphere, thereby enabling the realization of the anticipated synergies, are represented in this second group. Reasoning behind this decision is based on the vague distinction between both cost types; the measures taken in order to minimize the variable dis-synergies are often also the measures which will enable the realization of the anticipated synergies in a later stadium of the integration phase. Costs can for
example be found in, reducing uncertainty, creating mutual understanding, creating a new sense of purpose, gate-keeping and internal and external communication efforts. This overhead costs group thus mainly involves costs related to stage-setting, coordination and management. As can be seen in figure 6.1, the negative trend depicted by the red line is reversed by the overhead costs (dashed blue line). The effort put in reversing the negative trend through the overhead costs thus limits the dis-synergy costs in depth and duration, determines to large extent how soon the acquirer can start with realizing the observed synergies and finally influences the extent to which the synergies are realized.

Next to the overhead costs setting the stage for realizing the observed synergies, the final group of costs identified is important in realizing the synergies as well. This cost group represents those costs which can be assigned directly to the realization of one specific synergy. Investing in these synergies should result in their realization; consequently this cost group is referred to as the synergy investment costs (dashed purple line in figure 6.1). A clear example of such a cost can be found in workforce reduction where the lay-off of employees can only be reached in combination with a lay-off compensation. For each synergy of the different synergy sources, i.e. costs savings, revenue enhancements, process improvements, financial engineering and tax benefits, these costs exists and should be taken into account while determining the value of the target firm. Notice however that especially the investments related to revenue enhancements and process improvements, the soft synergies, are often covered by the overhead costs already. Some process improvements need for instance mutual understanding to realize them, investing in mutual understanding then can be covered by the synergy investments costs, however mutual understanding is required in general for reducing the uncertainty as well and is thus covered by the overhead costs already and is therefore not seen as a synergy investment cost.

Given the cost categories identified here, different scenarios could possibly occur for which figure 6.4 provides some examples. Preferred is thus the scenario having the least dis-synergy and the most synergy as a result of minimal overhead and synergy investment costs; hereby the value to the acquirer shareholders as defined by Eccles et al. (1999) and graphically depicted in figure 5.1, is maximized.

Figure 6.4: Value scenarios.
The dept and duration of the drop in turnover and consequently the value is thus mainly the result of: the uncertainty and the difference between both companies, the integration strategy being followed i.e. Absorption, symbiosis, preservation (Haseslagh & Jemison, 1991) and the overhead costs related to the effort preventing and minimizing the negative effects. The overhead costs of course corresponding to the integration strategy, as was explained in the previous chapter, as well.

To wrap up: Three cost-structures surrounding an acquisition are being recognized: synergy investment costs, dis-synergies (fixed and variable) and overhead costs. The cost groups are graphically represented in figure 6.5 in the coloured boxes. Notice that the dis-synergies (orange) ‘revenue reduction’ and ‘process deterioration’ are subdivided in a fixed and variable cost part.

Figure 6.5: Costs structures.

From the costs groups indentified, estimating the Synergy investment costs related to the synergy sources can be done quite accurately; these costs should therefore be identified and used in valuing the target firm. Therefore, in this study no further attention is given to this cost structure. The same holds for the fixed dis-synergy costs part, the dis-synergies that will almost certainly occur and last irrespective of the measures taken. The fixed dis-synergies are assumed to be predicted very well in advance and are therefore not taken into account further; these costs should be estimated based on the due diligence like the synergy investments costs.

Estimating the variable dis-synergies and the overhead costs is, in contrast to estimating the synergy investment costs and the fixed dis-synergies, more difficult as a result of the dependency of the integration strategy being followed, the contextual factors influencing the atmosphere of the acquisition, and the interrelationship between these variable dis-synergies and overhead costs. The amount of costs related to variable dis-synergies is to large extent depending on the overhead costs through the costs of the measures taken to prevent and counter these negative effects. The latter interrelationship suggesting that in case a variable dis-synergy is identified in advance, measures should be taken to prevent this specific variable dis-synergy to occur thereby influencing the probability of occurrence and when they do occur, to design counter measures thereby minimizing the height of the costs over time. The focus should thus be directed further at the overhead costs and the variable dis-synergies should be monetized as far as possible by making use of the same
method which is used in valuing the synergies, i.e. the first Chicago method which considers several scenarios (optimistic, most likely, pessimistic) in relation to the probability of occurrence of the cash flows in each of these scenarios (Kiholm Smith & Smith, 2004; Steffens & Douglas, 2007). The first Chicago method thereby corresponds very well to the classification of the variable dis-synergies in figure 6.3, which is based on the variable dis-synergies’ predictability of occurrence and their predictability of costs height.

In quantifying the variable dis-synergies the challenge for the flow variance related dis-synergies thus particularly lies at defining the right height of the cash flows in each scenario, for the probability variance based dis-synergies the challenge is to set the right probability for each scenario, and for the full variance based dis-synergies the challenge is a combination of both; setting probability and height of cash flows correctly. Quantification of these variable dis-synergies is thereby thus to large extent depending on the insight the process through the measures taken to prevent and counter these variable dis-synergies. Notice thus that by analyzing the overhead costs more insight in defining the variable dis-synergies is created and thereby both types of predictability increase. Analyzing these overhead costs is done in the following section.

6.2 Analyzing the overhead costs

The overhead costs represent those costs related to: measures needed to prevent the variable dis-synergies to occur, measures which minimize variable dis-synergies that occur, and measures to create an atmosphere which enables wealth creation in terms of the observed synergies. The overhead costs are however, as said already, very hard to estimate accurately as a result of the risks surrounding an acquisition. This section therefore doesn’t attempt to monetize these costs, instead it tries to provide more insight in these costs through considering the individual activities of the whole integration process behind the measures generating these costs and eventually providing an advice concerning the merger or acquisition.

Insight, it is decided, is provided by following the integration process as defined by Haspeslagh & Jemison (1991) who divide the integration process in a ‘Stage Setting phase’ and a ‘value creation phase’; the value creation phase being further distinguished in line with the integration approach chosen, i.e. preservation, symbiosis and absorption (Haspeslagh & Jemison, 1991). However, by solely considering the process no further insight is generated, therefore the stakeholders of the activities and the contextual factors influencing the content and execution of the activities are identified as well.

By involving stakeholders in the integration process the practical usability is increased; the activities within the stage setting and value creation processes are assigned to the functional stakeholders within the company which suits the purpose of these activities best. Doing so, makes somebody responsible for achieving the objectives of these activities thereby increasing the probability the activities are indeed being executed and indirectly thus preventing a specific variable dis-synergy to occur, minimizing those dis-synergies that do occur, and enabling an anticipated synergy to create its wealth. This primary stakeholder further has in turn to acquire information from the secondary stakeholders in order to be successful; he has to delegate the other stakeholder functions on aspects he is less familiar with thereby automatically ensuring a multidisciplinary task force. In light of the objective of this research, i.e. creating an acquisition decision making tool, this stakeholder is in the
position to indicate, based on his expectations and/or the information acquired during the due diligence, whether this potential M&A-deal should go ahead.

The second aspect mentioned as influencing the content and execution of the activities are the contextual factors. The information from the due diligence where the stakeholders base their decision to acquire the target firm on, results from these contextual factors. The influence of these factors is observed best through their relationship with the activities of the process. For example: one of the activities in the stage setting phase is developing mutual understanding. Keeping potential costs related to this activity in mind, this activity will at least be influenced by the contextual factor ‘culture’ of the acquired firm. By indicating which contextual factors influence which activities, a grip is created for the primary stakeholder on where to focus at in order to provide a well grounded advice about the acquisition.

Besides, another important advantage of increasing the insight through relating the stakeholders and contextual factors to the activities in the integration process, is that it puts the stakeholders in the position to better define the probabilities and heights of the dis-synergies; i.e. reaching a higher level of predictability. The contextual factors and integration activities influence to large extent the probability a variable dis-synergies will occur and the height of these costs. A big difference between the firms in the factor ‘culture’ in a absorption strategy would for example increase the probability of a drop in productivity and determines the height of the costs involved in this drop. The activities in the integration process directed to counter such a drop in productivity, will in turn decrease the height of the costs or at least turns the probability of occurrence towards a more favourable solution. Focussing on the overhead costs thus operates along the same variables which define the classes of variable dis-synergies in figure 6.3; i.e. probability variance, flow variance and full variance variable dis-synergies, and thereby increases the establishment of a better valuation and the chance on success of the acquisition.

The following section relates the integration process to the stakeholders and influential factors, through the individual activities in this process which are directed to preventing variable dis-synergies to occur, counter the negative activities of those dis-synergies which do occur, and finally create value by means of obtaining the observed synergies. Eventually, the purpose of these relations is to provide a well grounded advice, which should be weighed against the financial valuation of the synergies, dis-synergies and investment costs.

6.3 Integration processes; the activities, stakeholders and influential factors relationships

As was explained already shortly in chapter 3.2.2, the M&A integration stage consists according to Haspeslagh & Jemison (1991) of two phases; the stage setting phase and the value creation phase. The individual activities related to these phases are elaborated further below and accompanied by two tables. The first table depicts the relation between the activity and the functional departments or stakeholders having the most influence on the execution of that particular activity. For the stakeholder relations the following set of potential stakeholders is identified based on the integration task forces and management stakeholders as described by Galpin & Herndon (2007, pp. 92): decision makers (executive team), gatekeepers (integration project core team), finance, legal (including environmental), HR, Operations, R&D, Purchasing, Sales/Marketing, IT and Communication.
The second table shows the relation between the activity and the influential/contextual factors. The factors indentified result from literature as elaborated in chapter 3.3 “Contextual factors”. By identifying the relationships between a specific activity and the contextual factors the stakeholders are in a better position to assess the effort that would be necessary to successfully perform the activity and thus provide a better funded advice concerning the acquisition decision.

The relations between the activities and their stakeholders respectively the influential factors are identified by interviewing experts in the field of post merger integration; three experts have provided the data. The experts were asked to typify the relationships with either a ‘G’ for ‘generic’ or ‘S’ for ‘case specific’; Generic indicating an influence which is present independent from the case itself and a case specific relationship indicating an influence whose presence depends on the nature of the merger or acquisition itself. In case of the stakeholder relations, experts additionally had to indicate with ‘G*’ which stakeholder has the main responsibility over a particular activity.

Before the experts have identified the relationships they were however first asked to consider the stakeholders and the factors as they were identified in literature and to indicate whether some of the factors or stakeholders were missing or whether some of them were redundant and subsequently should be removed. According to one of the experts the stakeholder ‘business development’ could be added, another indicated to subdivide the stakeholder ‘operations’ into stakeholders following the primary process of the company. Finally, also ‘real estate’ and ‘environmental services’ were mentioned. However, since none of these comments were placed by one of the colleague-experts as well, i.e. none the comments were made twice, it is decided not to incorporate these additional stakeholders and to keep it with this notification. According to one of the experts the stakeholder ‘business development’ could be added, another indicated to subdivide the stakeholder ‘operations’ into stakeholders following the primary process of the company. Finally, also ‘real estate’ and ‘environmental services’ were mentioned. However, since none of these comments were placed by one of the colleague-experts as well, i.e. none the comments were made twice, it is decided not to incorporate these additional stakeholders and to keep it with this notification. Considering the factors identified in advance, the only comment received was that the factor ‘operational excellence’ could be included. This comment again was placed by only one expert and therefore not incorporated, besides this factor is covered implicitly by the quality, key talent and key managers factor already. The decision to not incorporate afore mentioned stakeholders and factors can of course be questioned. For now it is however not incorporated because as was argued before, none of the experts independently of each other made the same remark. The author recognises however that further research, where the experts are confronted with the answers of their colleagues could possibly result in some adjustments, but as was said this is left for further research, for now the majority rule holds.

Finally, before the activities and their relationships with the stakeholders and contextual factors are presented, it is explained how the expert data concerning the relationships is processed. As was the case with the identification of stakeholders and factors, also the final relationships are identified based on the majority rule. This leads to the table 6.1 which indicates the possible combinations of the individual judgements of the experts and consequently the final judgement as it is used in this thesis. For instance: two experts typify a certain relation as generic (G) while the third expert indicates it is a case specific (S) relation, the final judgement, given the majority rule, is that the relation is generic (G).
Table 6.1: Combinations of the relationships and their final judgements

<table>
<thead>
<tr>
<th>Combination</th>
<th>Judgement</th>
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<tbody>
<tr>
<td>G</td>
<td>G</td>
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<tr>
<td>G</td>
<td>S</td>
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<td>G</td>
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<td>G</td>
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Having explained how the expert-data is processed the following sections provide the relationships between activity and stakeholders and the activity and contextual factors. Besides each of the activities is explained briefly. The original data of the relationship identification by the experts is found in appendix 2 and appendix 3 for respectively the stakeholders and the factors.

6.3.1 Stage setting phase
The stage setting phase, following Haspeslagh & Jemison (1991), consists of the following activities. Each activity is described shortly after which the stakeholders and main influential factors are provided.

Establishing interface management
An interface management is needed to direct and control the interactions between both organizations. What can be considered as a minimal involvement by the often bigger acquiring company is considered as costly and time consuming by the smaller target company (Haspeslagh & Jemison, 1991). Acquiring top management thus has to decide how and who manages the boundary. The appointed manager or team, also known as “gatekeepers”, which generally consists of the head of the acquirer, the acquired firm’s head and some support/resource people, subsequently determine which filters to put in place and when necessary how these barriers will be reduced over time. The gate keeping process consists of three sub processes (Haspeslagh & Jemison, 1991, pp. 175):
- Filtering unwanted interactions
- Channelling acceptable ones
- Fostering desirable ones

Execution of these roles thereby consists of an extreme amount of communication. The challenge of establishing an interface management particularly lies in choosing the responsible manager of the acquired company. This manager has to be very active in shielding the employees in order to keep them focused on running the business while also having eye for the demands of the acquiring firm. The manager’s ability hereto often depends on his role before the acquisition. Finally, the gatekeepers determine to large extent the atmosphere and thereby the success of the acquisition. The gatekeepers or interface management is from now on also one of the potential stakeholders for the activities described later.
Table 6.2: Who decides the interface management composition?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
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<tr>
<td>Establishing</td>
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<td>management</td>
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</tr>
</tbody>
</table>

Table 6.3: Which factors should be taken into account while deciding upon the composition of the interface management?

<table>
<thead>
<tr>
<th>Contextual factors</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product-market</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>characteristic</td>
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<td>similarity/</td>
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<tr>
<td>complementarity</td>
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<tr>
<td>Technological</td>
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<td>compatibility</td>
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<tr>
<td>similarity/</td>
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<tr>
<td>complementarity</td>
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<tr>
<td>Culture</td>
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<tr>
<td>Size</td>
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<tr>
<td>Quality</td>
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<td>G</td>
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</tr>
<tr>
<td>Compatibility of</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>acquisition vision</td>
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</tr>
<tr>
<td>Management</td>
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<tr>
<td>styles</td>
<td>G</td>
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</tr>
<tr>
<td>Power differential</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Key talent</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Key manager</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Experience</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Communication</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Speed</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Risk</td>
<td>G</td>
<td>G</td>
<td>G</td>
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</tr>
</tbody>
</table>

**Putting operations on an even keel**

As a result of the acquisition employees and managers face a lot of uncertainty causing lowered productivity. Also external parties and customers question the firm on reliability and service levels thereby providing competitors the opportunity to take advantage of the situation (Haspeslagh & Jemison, 1991). Putting internal and external operations on an even keel by focussing on daily business is thus essential. Communication and clarifying what is and what isn’t going to change for each individual, where Galpin & Herndon (2007) refer to as addressing ‘me’ issues, is herein an important aspect. Important issues are according to Haspeslagh & Jemison (1991), employment decisions, pension schemes and executive renumeration.

Table 6.4: Who should be involved in putting operations on an even keel?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations (incl. R&amp;D)</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Putting</td>
<td></td>
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<td></td>
<td></td>
<td>G</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>on an even keel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>keel</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 6.5: Which factors determine the effort necessary to put operations on an even keel?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Putting Operations on an even keel</td>
<td>Product-market characteristic/similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technological characteristic/similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Culture</td>
<td>Size</td>
<td>Quality</td>
<td>Compatibility of acquisition vision</td>
</tr>
<tr>
<td></td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

**Instilling a new sense of purpose**

This activity is closely related to the activity ‘putting operations on an even keel’; providing a new sense of purpose in terms of a vision and mission is an effective manner of moving attention of the employees and managers to daily business and thereby lowering uncertainty. Vision and mission should of course make sense to the employees and management of the acquired firm in terms of the perceived strengths and weaknesses of the organization (Haspeslagh & Jemison, 1991).

Table 6.6: Which stakeholders should provide the new sense of purpose?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instilling a new sense of purpose</td>
<td>G</td>
<td>G*</td>
<td>S</td>
<td></td>
<td></td>
<td></td>
<td>S</td>
<td></td>
<td></td>
<td>G</td>
<td></td>
</tr>
</tbody>
</table>

Table 6.7: Which factors influence how difficult instilling this new sense of purpose is?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instilling a new sense of purpose</td>
<td>Product-market characteristic/similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technological characteristic/similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Culture</td>
<td>Size</td>
<td>Quality</td>
<td>Compatibility of acquisition vision</td>
</tr>
<tr>
<td></td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

**Taking stock and establishing control**

This activity is two folded; it is meant to create an information basis and second to establish control and meet legal reporting requirements by implementing the basic corporate control systems. The information basis to be established serves as reference for the integration activities and its objectives. When information and pre-acquisition view don’t correspond, the acquisition integration strategy must be adjusted in order to still reach the observed synergies (Haspeslagh & Jemison, 1991).
Table 6.8: Which stakeholders have to take stock and should establish control?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Taking stock and establishing control</td>
<td>$G$</td>
<td>$G^*$</td>
<td>$G$</td>
<td>$G$</td>
<td>$S$</td>
<td></td>
<td></td>
<td>$S$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 6.9: Which factors determine how much effort is necessary in order to properly take stock and establish control?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic / similarity / complementarity</td>
<td>Cultural</td>
<td>Quality</td>
<td>Compatibility of acquisition / vision</td>
</tr>
<tr>
<td></td>
<td>Technological similarity / similarity / complementarity</td>
<td>Size</td>
<td></td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activity</td>
<td>Taking stock and establishing control</td>
<td>$G$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Strengthening the acquired organization**

By means of establishing an information basis in the previous step, detailed insight in the shortcomings and weaknesses is generated as well. Based on this information these weaknesses have to be remedied in advance of the integration stage, starting with staffing and staffing depth, after all, while dealing with operational problems the right people have to be in the right place (Haseslagh & Jemison, 1991). Also the willingness of the acquirer to invest in the target company by committing resources is a manner to strengthen the organization, besides committing resources may have a positive impact on employee and managers attitude towards the acquirer. In both situations, whether the actions have a negative image such as job losses or a positive image such as additional investments, communicating the idea behind these actions increases understanding and decreases the resistance to integration as long these ideas are genuine.

Table 6.10: Which stakeholders are involved in strengthening the organization?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Strengthening the acquired organization</td>
<td>$G^*$</td>
<td>$G$</td>
<td>$S$</td>
<td>$G$</td>
<td>$G$</td>
<td>$G$</td>
<td>$G$</td>
<td>$G$</td>
<td>$G$</td>
<td>$G$</td>
</tr>
</tbody>
</table>
Table 6.11: Which factors influence the amount of effort required in strengthening the organization?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic/similarity/complementarity</td>
<td>Size</td>
<td>Quality</td>
<td>Compatibility of acquisition vision</td>
</tr>
<tr>
<td>Strategy</td>
<td>S</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Organization</td>
<td>S</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Activity</td>
<td>Strengthening the acquired organization</td>
<td>S</td>
<td>S</td>
<td>G</td>
</tr>
</tbody>
</table>

Developing mutual understanding

Mutual understanding of each others’ culture, organization and course of action is a key aspect in making the acquisition integration successful. Merely bringing together both management teams isn’t enough. Instead a program should be started which raises the consciousness about the influence of these differences and what the differences between both organizations exactly are (Haspeslagh & Jemison, 1991). Furthermore also increasing the opportunities for the people of both organizations to interact with each other by providing them challenges should be encouraged.

Table 6.12: Which stakeholders are involved in developing mutual understanding?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>G</td>
<td>G*</td>
<td>G</td>
<td>S</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Table 6.13: Which factors determine the effort required in developing mutual understanding?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic/similarity/complementarity</td>
<td>Size</td>
<td>Quality</td>
<td>Compatibility of acquisition vision</td>
</tr>
<tr>
<td>Strategy</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Organization</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Activity</td>
<td>Strengthening the acquired organization</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Building credibility up and down

In an acquisition there generally is not much credibility between both organizations and the gatekeepers. Credibility is however important to get the cooperation and commitment of the acquiring and acquired managers. Haspeslagh & Jemison (1991) argue that the gatekeepers can build credibility in the acquiring firm through honest communication, their own competence and the ability to assign resources. In the acquired firm, gatekeepers build credibility through the results and a positive atmosphere surrounding the integration of the acquired firm (Haspeslagh & Jemison, 1991).
Now that the stage setting activities have been elaborated the next sections describe the activities in the value creation stage, herein distinguishing the integration approaches preservation, absorption and symbiosis (Haspeslagh & Jemison, 1991).

6.3.2 Value creation and Preservation

Haspeslagh & Jemison (1991) identify in their research four tasks in the value creation phase of preservation acquisitions. These four tasks are elaborated here, thereby providing insight in what is exactly the purpose of these activities.

**Continued boundary protection**

Continued boundary protection is necessary to preserve the culture of the acquired firm that enables the capabilities the firm is acquired for to exist. Important herein is to make managers and employees of both firms tolerant towards their mutual differences (Haspeslagh & Jemison, 1991). The interface management as described in the stage setting phase is continued here; main activities thus are (Haspeslagh & Jemison, 1991m, pp.175):  
- Filtering unwanted interactions  
- Channelling acceptable ones  
- Fostering desirable ones

Table 6.16: Which stakeholders are involved in protecting the boundary between both firms?
Table 6.17: Which factors influence how hard protecting the boundary between both firms will be?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic / similarity / complementarity</td>
<td>Technological capability / similarity / complementarity</td>
<td>Culture</td>
<td>Size</td>
</tr>
<tr>
<td>Activity</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>S</td>
</tr>
</tbody>
</table>

_Nurturing the acquired organization_

Haspeslagh & Jemison (1991) argue in this second preservation value creation activity that to create value the development of acquired company should be accelerated through nurturing the firm. Subsequently they identify two main aspects in nurturing the organization; instilling ambition and practical support of this ambition. Instilling ambition is achieved by lifting the managers’ horizon, changing their risk perception and making them more ambitious. Especially firms having operated individually for quite some time may have become constrained by their own imposed boundaries such as resources and past negative experiences. Practical support, following Haspeslagh & Jemison (1991), refers to the acquirer’s transfer of managerial expertise in the areas of strategy development and human resources thereby ensuring the vision of the acquired organization is strategically sound and the required capabilities to achieve their ambitions are available.

Table 6.18: Which stakeholders should be involved in nurturing the acquired organization?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>G</td>
<td>G*</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>S</td>
</tr>
</tbody>
</table>

Table 6.19: Which factors influence the effort put in nurturing the acquired firm?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic / similarity / complementarity</td>
<td>Technological capability / similarity / complementarity</td>
<td>Culture</td>
<td>Size</td>
</tr>
<tr>
<td>Activity</td>
<td>S</td>
<td>S</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

_Accumulate learning_

The third activity is according to Haspeslagh & Jemison (1991) accumulate learning; learning about and from the business. Gatekeepers have a critical position in learning about the business since they have to accumulate, translate, and disseminate the learning. Resource people from both companies often are the best medium to learn from within, the number of people involved in learning should
however be restricted, quality is preferred over quantity (Haspeslagh & Jemison, 1991). This inside knowledge forms the basis of developing a clearer view on the industry and the development strategy of the whole firm.

Learning from the business (domain exploration) is in contrast more difficult because often the knowledge to be learned is to be implemented in another more suspicious organization being part of the acquiring corporation. The challenge in the transfer here is thus to find the right balance between protection of the acquired company’s culture and the proximity and acceptance of the acquired firm by the more suspicious business.

Table 6.20: Which stakeholders are involved in accumulating the learning process from and about the business?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Activity</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulate learning</td>
<td></td>
<td>S</td>
<td>G*</td>
<td>S</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Table 6.21: Which factors influence the learning process from and about the business and thereby determine the required input to accumulate this learning?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic/similarity/complementarity</td>
<td>Technological characteristic/similarity/complementarity</td>
<td>Culture</td>
<td>Size</td>
</tr>
<tr>
<td>Accumulate learning</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

**Champion increased resource commitment**

The final activity in the preservation value creation phase is organizational championing. Preservation acquisitions generally are domain exploration acquisitions and therefore are often smaller firms. Their size subsequently causes to lose attention by the parent over time. In order to keep the commitment of the acquiring firm confidence should be build showing corporate management’s commitment pays off. Three factors influence this confidence, causing the parent company to commit resources (Haspeslagh & Jemison, 1991, pp.219):

- Early control over operating performance
- Framing the development strategy into planning language understood by corporate management
- Retaining good relationships with corporate staff units

Table 6.22: Which stakeholders should enable resource commitment?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Activity</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Champion increased resource commitment</td>
<td></td>
<td>G</td>
<td>G*</td>
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</tr>
</tbody>
</table>
Table 6.23: Which factors influence how difficult it is to increase resource commitment?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product/market characteristic/ similarity/complementarity</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Technological similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Size</td>
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<tr>
<td>Quality</td>
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<td></td>
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<tr>
<td>Competibility of acquisition vision</td>
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<tr>
<td>Management styles</td>
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<tr>
<td>Power differential</td>
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<td>Key talent</td>
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<td>Key manager</td>
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<td>Experience</td>
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<td>Speed</td>
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<tr>
<td>Risk</td>
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</tbody>
</table>

Having described the four main activities in a preservation acquisition, their main stakeholders and influential factors, attention is now turned to the activities related to value creation in absorption acquisitions.

6.3.3 Value Creation and Absorption

In an absorption acquisition the acquired firm and the acquirer are consolidated. Haspeslagh & Jemison (1991) define four basic activities in their research to reach absorption:

**Drawing up a blue print for consolidation**

The first task is to create a blueprint for the consolidation. The first blue print should in fact be created already long before the deal is closed and ideally involves managers from both companies. When this isn’t possible given the circumstances, the blue print should be drawn as soon as possible after closing the deal (Haspeslagh & Jemison, 1991). Haspeslagh & Jemison (1991) define five aspects of an integration plan:

- Assigning a single leader responsible for managing the integration process.
- Selection of the management teams leading the consolidated firm. Absorption acquisitions always result in tough choices concerning people since the consolidation causes functions to be occupied by two suitable persons. These decisions have to be made quite fast; delaying the decision creates unwanted uncertainty. Decision making based on competences is preferred, even though this might results in disappointing members of your own organization for a particular position. Moreover, this selection procedure sends a positive signal to the employees of the acquired company as well.
- Design the transition structure including task forces for critical functions. The task forces ensure the identification and evaluation of potential synergies. They further recommend a strategy to achieving the identified synergies. Structuring these integration task forces is done following two key questions (Haspeslagh & Jemison, 1991, pp. 200): “How critical is the integration of this function to the success of the acquisition?” and “How compatible or difficult to combine are the two firms’ operations in that function?”. Creating combination task forces for functions which aren’t critical for the success of the merger should be avoided as well as functions which are hard to integrate and thereby might seriously impede the overall process (Haspeslagh & Jemison, 1991). Integration Task forces have big political power of other persons position in the future organization, in order to minimize this political power decision and process should be supported by facts and overseen by manager...
possessing a strategic vision about the integration but without a political agenda (Haspeslagh & Jemison, 1991).

- Integration planning. Having a clear defined planning with credible milestones keeps the process going (Haspeslagh & Jemison, 1991).
- Communication throughout the process. Preparing an integration plan involves extreme amounts of communication. Logic and pace have to be explained and made logical to employees and external stakeholders (Haspeslagh & Jemison, 1991). The communication has to be honest, clear and frequent, especially celebrating what has been achieved already while making clear what has to be done still.

Table 6.24: Which stakeholders should be involved in drawing up the blueprint for consolidation?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawing up a blueprint for consolidation</td>
<td>G</td>
<td>G*</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Table 6.25: Which factors influence the amount of effort required to draw up the consolidation blueprint?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic / similarity / complementarity</td>
<td>Technology compatibility / similarity / complementarity</td>
<td>Culture</td>
<td>Size</td>
</tr>
<tr>
<td>Drawing up a blueprint for consolidation</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Managing the combination

Managing the combination refers to managing the integration of the operations and functions of both firms according to the blueprint and planning created earlier. Approaching the integration planning superficially causes the dangers of integration to be underestimated. Less experienced acquirers often let the perceived or expected difficulty and resistance influence the speed of the integration execution; experienced acquirers however argue for a fairly determined and fast paced integration execution (Haspeslagh & Jemison, 1991).

Table 6.26: Which stakeholders are responsible for managing the combination process of operations and functions?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing the combination</td>
<td>G</td>
<td>G*</td>
<td>G</td>
<td>S</td>
<td>G</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>G</td>
<td>S</td>
<td>S</td>
</tr>
</tbody>
</table>
Table 6.27: Which influential factors determine the effort needed to manage the integration process of operations and functions?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product-market characteristic / similarity / complementarity</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Technological similarity / complementarity</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Product</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Technology</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Organization</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>HR</td>
<td>G</td>
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<tr>
<td>Process</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Activity</td>
<td>Managing the combination</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Moving to best practices

Most absorption acquisitions focus on cost reductions through economies of scale, however in absorptions there also lies potential in the functional skill transfer. When these latter advantages aren’t identified in advance, a search for these kind of synergies might be beneficial. Transferring best practices is thus often a substantial source of value creation (Hampeslagh & Jemison, 1991); the scope for resource sharing is in most industries often limited, transferring best practices might still contribute to value creation through small improvements in the processes and products.

Table 6.28: Which stakeholders are responsible for moving to best practices?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Moving to best practices</td>
<td>G</td>
<td>G*</td>
<td>G</td>
<td>S</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Harnessing the complementarity between the two firms

The earlier mentioned activities in the value creation phase of an absorption acquisition especially focused on managing the value creation through resource sharing and skill transfer. The final activity however specifically directs focus on the cultural and organizational differences; achieving maximum benefits also needs the ability to take permanent advantage of complementarity although the focus in absorption acquisitions is often on the similarities (Hampeslagh & Jemison, 1991). For the long-term, the approach should thus develop the management skills to harness complementarity.
Table 6.30: Which stakeholders are responsible for harnessing the complementarity between both firms?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harnessing the complementarity between the two</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>organizations</td>
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<td>G</td>
<td>G</td>
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</tr>
</tbody>
</table>

Table 6.31: Which factors influence the effort needed to harness the complementarity between both organizations?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Activity</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Harnessing the complementarity between the two</td>
<td>Product-market characteristic/similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>organizations</td>
<td>Technology/competence/similarity/complementarity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Culture</td>
<td>Size</td>
<td>Quality</td>
<td>Compatability of acquisition vision</td>
</tr>
<tr>
<td></td>
<td></td>
<td>G</td>
<td>G*</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

In the following section the activities, stakeholders and influential factors of the final integration approach in the value creation phase are elaborated, i.e. value creation in a symbiotic acquisition.

6.3.4 Value Creation and Symbiosis

Value creation in a symbiotic acquisition is the most challenging of the three approaches defined by Haspeslagh & Jemison (1991), since a symbiotic acquisition needs aspects from both a preservation approach as well as from the absorption approach. Elaboration of the activities in the value creation phase of symbiotic acquisitions starts with “start with preservation”.

**Start with preservation**

Like in a preservation acquisition, the symbiotic acquisitions need to be preserved as well at the start. The initial steps are therefore in essence the same as described in chapter 6.1.3. First the interactions between both firms have to be filtered, channelled and the desirable ones fostered by gatekeepers thereby emphasizing the capabilities the firm is acquired for (Haspeslagh & Jemison, 1991). The differences between a preservation and a symbiotic acquisition can however be found in the higher level of expectations surrounding symbiotic acquisitions, besides the premiums paid are often substantial. These higher expectations should thus be managed by paying more attention to manager’s reactions and the organizational reporting of the acquired firm; patience is needed. Furthermore, in the meantime while the acquired firm is preserved, the acquiring firm should already prepare their organization on receiving the acquired capability.

Table 6.32: Which Stakeholders are involved in preserving the acquired organization?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start with preservation</td>
<td></td>
<td>G</td>
<td>G*</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
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</tr>
</tbody>
</table>

66
Table 6.33: Which factors influence how hard it is to preserve the acquired firm is preserved?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic/similarity/complementarity</td>
<td>Technological knowhow/similarity/complementarity</td>
<td>Culture</td>
<td>Size</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activity</th>
<th>Start with preservation</th>
</tr>
</thead>
</table>

|                  | G | G | G | S |

**Reaching out rather than reaching in**

Both firms having set the stage, the capability transfer may start by removing the boundary between both firms on strategic places. The interactions preferably originated by the acquired firm. In order to enhance these initiatives the acquirer may assign some experienced people to the acquired firm who help to solve the acquired firm’s problems by pointing to solutions and resources within the acquiring firm (Haspeslagh & Jemison, 1991).

Table 6.34: Which stakeholders are involved in inciting the acquired firm to reach out?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity</td>
<td>Reaching out rather than reaching in</td>
<td>G*</td>
<td>S</td>
<td>S</td>
<td></td>
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|                  | S |

Table 6.35: Which factors determine the effort necessary to incite the acquired firm to reach out?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic/similarity/complementarity</td>
<td>Technological knowhow/similarity/complementarity</td>
<td>Culture</td>
<td>Size</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Activity</th>
<th>Reaching out rather than reaching in</th>
</tr>
</thead>
</table>

|                  | S | G |

**Swapping operating responsibility for strategic control**

The initiatives of the acquired firm to search for solutions and resources in the acquiring firm are increased over time. With this increase also the influence of the acquirer over the acquired firm is gradually increased, thereby circumventing difficult “symbolic” issues (Haspeslagh & Jemison, 1991). Operating responsibility still lies at the acquired firm and control over strategic issues and decision is the responsibility of the acquirer.
### Table 6.36: Which stakeholders are responsible for organizing the swap of operating responsibility for strategic control?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Swapping operation</td>
<td>G*</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
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<tr>
<td>responsibility for</td>
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<tr>
<td>strategic control</td>
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</tbody>
</table>

### Table 6.37: Which factors determine the effort needed to acquire the strategic control?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Product-market characteristic/similarity/complementarity</td>
<td>Size</td>
<td>Quality</td>
<td>Compatibility of acquisition vision</td>
</tr>
<tr>
<td>Product-market</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>characteristic</td>
<td></td>
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</tr>
<tr>
<td>similarity/complementarity</td>
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</tr>
<tr>
<td>Technology</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>characteristic</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>similarity/complementarity</td>
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<tr>
<td>Culture</td>
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<td>Size</td>
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<td>Quality</td>
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</tr>
<tr>
<td>Compatibility of</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>acquisition vision</td>
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<td></td>
</tr>
<tr>
<td>Management styles</td>
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<tr>
<td>Power differential</td>
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</tr>
<tr>
<td>Key talent</td>
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<tr>
<td>Key manager</td>
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<td>Experience</td>
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<td>Communication</td>
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<td>Speed</td>
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<tr>
<td>Risk</td>
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</tbody>
</table>

### Amalgamate the two organizations

The final activity in the value creation phase of symbiotic acquisition is amalgamating both organizations without losing the characteristics of the acquired organization which enable the capabilities where the firm has been bought for; loss of these underlying characteristics might result in the loss of the capability as well. Whether you succeed in retaining these characteristics depends on the calibre and ability of the managers. Success of the transformation further depends on the long-term perspective of the acquirer in relation to their willingness to invest in the acquired company and their patience with the interface management.

### Table 6.38: Which stakeholders are involved in amalgamating both firms?

<table>
<thead>
<tr>
<th>Stakeholder</th>
<th>Decision maker</th>
<th>Interface management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
<th>Operations</th>
<th>R&amp;D</th>
<th>IT</th>
<th>Purchasing</th>
<th>Sales &amp; Marketing</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amalgamate the two</td>
<td>G*</td>
<td>G</td>
<td>G</td>
<td>S</td>
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<td>G</td>
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<td>G</td>
<td>S</td>
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<tr>
<td>organizations</td>
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</tr>
</tbody>
</table>

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68
Table 6.39: Which factors influence the amount of effort needed to amalgamate the two organizations?

<table>
<thead>
<tr>
<th>Contextual factor</th>
<th>Strategy</th>
<th>Organization</th>
<th>HR</th>
<th>Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product-market characteristic/similarity/complementarity</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Technological mobility/similarity/complementarity</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Cultural compatibility</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Quality</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Compatibility of acquisition vision</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Management styles</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Power differential</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Key talent</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Key manager</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Experience</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Communication</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Speed</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
<tr>
<td>Risk</td>
<td>G</td>
<td>G</td>
<td>G</td>
<td>G</td>
</tr>
</tbody>
</table>

Having described the activities in the different phases of the integration process and relating them to contextual factors and the primary and secondary stakeholder, section 6.4 summarises the findings concerning the stakeholders, the contextual factors and their relationships with the integration activities, herein specifically differentiating between the different integration strategies from the value creation phase, i.e. preservation, absorption and symbiosis.

6.4 Overhead costs: a recap on the relationships
In the previous section the integration activities were linked to the functional stakeholders who should be involved in the execution of a particular activity and to the contextual factors influencing the execution of these activities. This section briefly recapitulates on the findings.

In Chapter 6 the costs involved in an M&A project were analysed in order to make an adequate valuation of the target firm. Of the different cost types, monetizing the overhead costs is very difficult as a result of the risks and complexity involved in the context surrounding the acquisition. Though, insight in the overhead costs is still desired and it is decided not to quantify the overhead costs but instead to generate an advice; an advice which is in essence based on these overhead costs through the integration process and the contextual factors and where the stakeholders of the activities deliver the input. Distinguishing between a monetary part and an advice part therefore is the right thing to do; it improves the reliability of the financial part and improves the internal discussion and thereby the integration process. Table 6.40 and table 6.41 show the final results of the relations between respectively stakeholders and process, and factors and process.
In table 6.40 a couple of things stand out while taking the problem analysis of ABC as described in chapter 4 into account. Interface management plays in almost every activity a leading role. The fact that ABC doesn’t have a formal acquisition manager makes it for ABC thus even more important to put an interface management in place for future acquisitions; Especially since ABC in the current situation primarily utilises the preservation integration approach and according to the experts interface management is one of the few stakeholders who should be present during the value creation in preservation acquisitions. Furthermore, the due diligence of ABC which currently is performed primarily on basis of legal and financial aspects, is insufficient. This however strengthens the argument for valuation based decision making as is argued for in this thesis which does incorporate these other stakeholders. Also based on table 6.41 it becomes clear a more elaborate due diligence is preferred. After all, the factors’ influence on the integration process is best assessed by the stakeholders who have to deal with the influence of these factors during the integration.

Furthermore considering table 6.41 the factor-activity relationships identified are a simplification of reality. This is for example seen with the factor ‘communication’. As can be seen, the factor communication is only of influence on the activity ‘putting operations on an even keel’. This is rather peculiar considering the attention it often gets in the literature as an important factor in reducing the uncertainty involved in an acquisition. For now two possible explanations are given, nonetheless further research is preferred. The first reason which might explain this limited influence in our analysis concerns the purpose of some of the activities. Take for instance the activity ‘instilling a new sense of purpose’; this activity is in fact communication; thus when the purpose is communication already, it isn’t influenced by the factor communication itself. The second, more likely explanation according to the author, is that communications’ influence is in fact present in every activity but not very often considered important enough to directly take it into consideration. Instead,
‘communication’ has a more indirect, mediating influence on the other factors. ‘Communications’ influence is thereby an example of the simplification of reality present in the model.

Table 6.41: Contextual factor-activity relationships.

<table>
<thead>
<tr>
<th>Phase activity</th>
<th>Contextual factors</th>
<th>Strategy factors</th>
<th>Organizational factors</th>
<th>HR factors</th>
<th>Process perspective factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stage setting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Establishing interface management (gate keeping)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Putting operations on an even keel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Instilling a new sense of purpose</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taking stock and establishing control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strengthening the acquired organization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developing mutual understanding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building credibility up and down</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Creation in Preservation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continued Boundary protection (gate keeping)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nurturing the acquired company</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulate learning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Champion increased resource commitment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Creation in Absorption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Drawing up a blue print for consolidation</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>Managing the combination</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moving to best practices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Harnessing the complementarity between the two firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Creation in Synergy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Begins with preservation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reaching out rather than reaching in</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Swapping operating responsibility for strategic control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amalgamating the two organizations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Having briefly recapitulated on the findings of chapter 6 and in particular on the content of the overhead costs’ advice part, the following chapter explains how the solution is designed and subsequently presents the valuation based decision-making tool.
7| The valuation based decision-making tool

This chapter describes the ‘plan of action’ step from the regulative cycle (Van Strien, 1997) which is meant to “design the solution for the problem and the associated change plan” (Van Aken et al., 2007, pp. 14). This chapter thereby describes the solution to the problem statement as defined in chapter 4.4, i.e.:

**How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?**

As was described in chapter 2 already designing the solution is done by following the process as depicted in figure 7.1, which has been defined by van Aken et al. (2007). The problem analysis has been conducted in the previous chapters; the following section therefore describes the developing specifications.

Figure 7.1: The key activities in actual design; synthesis-evaluation iterations (Source: Van Aken et al., 2007, pp. 85).

7.1 Design Specifications

The synergy and cost analysis performed to analyze the problem at hand and described in chapters 5 and 6 provide the content of the solution and thereby determine to large extent the developing specifications. Achieving the ultimate deliverable of the project, which in this case is to improve the acquisition decision making and integration process of ABC by means of a valuation based decision making tool, involves however more criteria; criteria related to changing the current habits and procedures involved in acquiring a target firm. Since the proposed content of the solution already improves these procedures, the focus and thereby the developing specifications are especially directed towards the usability of the decision making tool. A solution design which is too complex and contains too much detail will not be used by ABC and thereby will indirectly miss its ultimate goal. The solution; the valuation based decision making tool, thus has to conform to the following content and usability specifications:

7.1.1 Content specifications

The content of the valuation based decision making tool incorporates both a quantified monetary part and a non monetary advice part which is generated based on the integration process, the stakeholders and the influencing contextual factors. The valuation based decision making model thus has to contain:

- The observed synergies presented in terms of monetary units, covering:
  - Cost savings
  - Revenue enhancements
  - Process improvements
  - Financial engineering
  - Tax benefits
- Costs presented in terms of monetary units, covering:
Synergy investment costs
○ Fixed dis-synergies
○ Variable dis-synergies

• An overall advice concerning the acquisition which is based on expected overhead costs, covering:
  ○ Contextual factor definition
  ○ Stage setting activity priority definition
  ○ Value creation activity priority definition (herein distinguishing integration approaches)
  ○ Factor priority definition per activity of both the stage setting and value creation phase

For the content expressed in monetary units further holds that they will be presented following the first Chicago method defining three scenario’s; i.e. optimistic, most likely, pessimistic, in terms of their cash flows over time and the probabilities defining the chance a certain scenario will occur (Kiholm Smith & Smith, 2004; Steffens & Douglas, 2007).

The decision to distinguish the dis-synergies solely based on the fixed and variable, i.e. flow variance, probability variance, full variance, characteristics instead of distinguishing them based on their source as is done with the synergies deserves some further explanation. Distinguishing them based on their fixed and variable characteristics effectuates an increased consciousness on what can be influenced in relation to a certain dis-synergy and thus increases the discussion. In contrast distinguishing the dis-synergies based on their source would not have sorted the same effect. Of course it can be argued to first distinguish based on source and subsequently once more on predictability of cash flow and occurrence, this would however increase the complexity of the tool, which, as can be read in the next section, isn’t in line with the usability specifications.

7.1.2 Usability specifications
In addition to the content of the valuation model improving ABC’s M&A process, the usability specifications of the tool have an important contribution in improving this process as well. Usability of the tool determines to large extent, if and how the tool is being used. The tool should therefore satisfy the following specifications:

• Easy to use (not too complex)
• Adaptable to M&A specific situation
• Minimal in size
• Textual and visual explanation of the tool

Having elaborated the most important specifications the following section involves designing the valuation based decision making tool.

7.2 Designing the decision making tool
Designing a solution is according to Van Aken et al. (2007) not as straight forward as the analysis, diagnosis and the definition of the solution’s specifications. Instead a creative leap is needed which is defined as ‘synthesis’ in figure 7.1.

Van Aken et al. (2007, pp. 87) define three types of input for the synthesis step:
- Problem related inputs: the problem definition, the problem analysis and diagnosis, and the specifications.
- A model for the present business system as a starting point for the redesign.
- Ideas for possible solutions.

While designing the valuation based decision making tool these three types of input also served as starting point. Specifically the observation made in the problem analysis, arguing ABC doesn’t have a clear defined acquisition procedure, is an important input. The content of the tool, as explained in previous chapters, improves ABC’s procedure through defining the synergies and extra costs as a result of the acquisition.

The tool itself can however also improve this procedure by defining clear, logical steps which should be followed in order to come to a well reasoned acquisition decision. The tool therefore is (again) to large extent based on the processes as defined by Haspeslagh & Jemison (1991) and Galpin & Herndon (2007) as described in chapter 3 already. Both authors argue in the first place for a clear, rational, strategy justifying the acquisition and subsequently turn towards defining the synergies, stakeholders and an investigation of the implementation timing. The tool as presented in figure 7.2 follows this approach as well and thereby contributes to a better acquisition procedure and eventually a better decision concerning the acquisition.

Figure 7.2: Valuation based decision-making tool.
The tool, its activities, and the iterative character of these activities in the tactical and operational justification stage, i.e. activity three to nine, is described further in the following sections. The Excel based modules, which are an important aspect of both the ‘monetary Synergies & Costs’-part and the ‘advice’-part, are explained in the context of these activities as well. The explanation of the steps and the excel modules in the upcoming sections is the final tool and is considered as the deliverable of this research. Notice however, that the explanation of the tool given below can’t be read independently of what has been written above. A ‘stand alone’ description would for example ask for an explanation of all the terminology used before. In light of the objective of this research and given the limited space, elucidation of these concepts is to large extent omitted for now.

7.3 The valuation based decision-making tool
The valuation based decision-making tool follows the 10 step procedure as presented in figure 7.2. The tool can explicitly be used in providing insight in the extra benefits and costs as a result of the acquisition. Notice that the tool thus specifically does not calculate the target firm’s intrinsic and market value. The tool must therefore be considered as an addition on the financial and legal due diligence as is performed already within ABC. Although these may seem as two separate activities now, important overlap will exist. The legal and financial due diligence will also uncover these extra benefits and costs, meaning they have to include those in the valuation based decision making tool as well.

Each step of the valuation based decision making tool is explained here further in order to provide the user of the tool with the knowledge needed to full fill each step and to explain what the deliverables of these steps are.

7.3.1 Target Setting
The first step of the valuation based decision making tool concerns the step ‘target setting’. Target setting involves a description of the target company in general terms, such as:

- Who is the target?
- How did the firm become a potential target?
- What’s the firm’s history?
- What is their mission and vision?
- Does the target concern the whole firm or only a part of it; i.e. business unit, product group, customer segment?
- What is the targets core business?
- Which markets does it serve?
- Who are their customers?
- Who are their competitors?
- Do we have previous business experience with the firm? How did this go?
- How are they organized
- Etc.

This often publicly available information is subsequently linked to ABC’s business objectives and growth strategy. It explains in clear, general terms why the merger or acquisition is done. An important point for attention is why ABC in fact wants to head into a M&A project instead of developing the observed capability themselves or go for an alliance type of collaboration to develop
the capability. After all, during interviews held with experts in field of mergers and acquisition, it was often stated that a M&A project should be the firm’s last resort.

Also an elaboration on why specifically this firm is set as a target and not one of its competitors is part of target setting. Substantiating the foregoing may contain a far-reaching examination of these competitors as well.

The document being created serves as an initial reference in the steps to follow, thereby increasing the rational and lowering the opportunism which often surrounds an acquisition. Besides, the document can be used by stakeholders involved in a later stage of the acquisition as an introduction to the case at hand and understand the rationale behind it.

7.3.2 Strategic justification
The strategic justification brings the target setting step to the next level by focusing even more on ABC’s business objectives and growth strategy and how the target firm helps to achieve these objectives. The focus is in this step thus primarily on ABC’s own business capabilities and how the target’s capabilities complements those of ABC’s thereby eventually achieving the goals ABC envisions. Experts argue that an acquisition is only justified when the deal delivers extra business; justification of a deal based solely on cost savings or tax benefits isn’t sufficient.

The strategic justification step thus delivers the synergies to be achieved and refutes the disadvantages and problems indentified in advance already as good as possible. The more potential synergies and disadvantages identified in this early stage the better. Each of them should of course be accompanied by an explanation on how to reach or to avoid/deal with them. The latter is of course best be done by incorporating those stakeholders whose expertise the synergies and disadvantages comprises. By involving expert stakeholders they are placed in a position to ventilate their opinion as well.

Potential synergies are found in each of the following synergy sources as explained in chapter 5:

- Cost savings
- Process improvements
- Revenue enhancements
- Financial engineering
- Tax benefits.

Based on this initial consultation a decision is made to proceed or to abort the process. In case it is decided to proceed, the anticipated synergies are substantiated further by the functional-experts in the tactical and operational justification phase where these synergies are quantified in monetary units. The tactical and operational justification phase further considers the implementation process, the planning, other stakeholders, the context of the acquisition and the potential problems, disadvantages and dis-synergies, the context encloses.

This tactical and operational justification phase should thus be part of ABC’s already existing due diligence practice which currently especially involves a financial and legal check. This implies that during or in advance of the tactical and operational justification phase also the letters of intent and confidentiality are issued.
As can be seen in figure 7.2 the tactical and operational justification phase has an iterative character. This iteration between the ‘monetary synergies & costs part’ and the ‘advice part’ not only ensures that the observed synergies, dis-synergies and synergy investments costs are updated in terms of their probabilities and cash flow planning, but it also uncovers problems and opportunities which previously weren’t identified. The iterative character thereby improves the quantity and the quality of the target assessment, improves the decision and the integration of the target firm, and in the end increases the chance on success.

The basis of the decision is as said already formed in two parts; a monetary part and an advice part. Both parts are supported by an excel module, which from now on are termed module I and module II for respectively the ‘monetary synergies & costs part’ of step three to five and the ‘advice part’ of step six to nine in figure 7.2. First the ‘synergies & costs part’ is described.

7.3.3 ‘Synergies & costs part’ steps

The ‘synergies & costs part’ is build around excel module I which demands the quantification of the synergies, synergy investment costs and dis-synergies in monetary units, thereby being able to calculate the net present value of the acquisitions benefits and costs. Since step three to five are quite similar in usage, the three steps are treated here at once.

Figure 7.3 is a screenshot of the dashboard of Excel Module I which functions as the main screen.

Figure 7.3: Dashboard excel module I.

<table>
<thead>
<tr>
<th>Weighted Average Cost of Capital (WACC)</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (Continuing Value)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.0%</td>
<td>34.1%</td>
<td>36.1%</td>
<td>38.0%</td>
<td>40.0%</td>
<td>42.0%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>CV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>€30.750</td>
<td>€28.884</td>
<td>€27.149</td>
<td>€15.000</td>
<td>€14.173</td>
<td>€24.827</td>
<td>€322.132</td>
</tr>
<tr>
<td>Revenue Enhancements</td>
<td>€27.000</td>
<td>€24.545</td>
<td>€22.334</td>
<td>€20.305</td>
<td>€18.445</td>
<td>€16.765</td>
<td>€184.616</td>
</tr>
<tr>
<td>Process Improvements</td>
<td>€32.000</td>
<td>€30.636</td>
<td>€30.579</td>
<td>€27.709</td>
<td>€25.271</td>
<td>€22.074</td>
<td>€190.884</td>
</tr>
<tr>
<td>Tax Benefits</td>
<td>€20.000</td>
<td>€18.182</td>
<td>€16.529</td>
<td>€15.026</td>
<td>€13.660</td>
<td>€12.418</td>
<td>-</td>
</tr>
<tr>
<td>Total inflow synergies</td>
<td>€104.750</td>
<td>€116.136</td>
<td>€105.579</td>
<td>€87.340</td>
<td>€75.585</td>
<td>€81.030</td>
<td>€158.629</td>
</tr>
<tr>
<td>Total outflow dis-synergies</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Standard deviations</td>
<td>€43.146</td>
<td>€48.302</td>
<td>€45.800</td>
<td>€35.375</td>
<td>€29.670</td>
<td>€20.078</td>
<td>€131.427</td>
</tr>
<tr>
<td>Total</td>
<td>€56.732</td>
<td>€68.302</td>
<td>€66.067</td>
<td>€53.707</td>
<td>€46.080</td>
<td>€38.080</td>
<td>€216.769</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>CV</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCE Total inflow synergies</td>
<td>€-518.000</td>
<td>€-115.435</td>
<td>€-86.367</td>
<td>€-16.703</td>
<td>€-1.366</td>
<td>€-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>€54.352</td>
<td>€46.197</td>
<td>€36.057</td>
<td>€29.670</td>
<td>€20.585</td>
<td>€18.285</td>
<td>€223.532</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>0</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>CV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Revenue Enhancements</td>
<td>-</td>
<td>-</td>
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<td>-</td>
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<tr>
<td>Process Improvements</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Financial Engineering</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax Benefits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Synergy investments costs</td>
<td>€-518.000</td>
<td>€-115.435</td>
<td>€-86.367</td>
<td>€-16.703</td>
<td>€-1.366</td>
<td>€-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>€54.352</td>
<td>€46.197</td>
<td>€36.057</td>
<td>€29.670</td>
<td>€20.585</td>
<td>€18.285</td>
<td>€223.532</td>
</tr>
</tbody>
</table>

In the module the colour yellow indicates an input variable. On the dashboard this is for example seen in setting the discount rate by means of the slide bar. This discount rate is used for calculating the discounted cash flows; the rate used here is the weighted average costs of capital, or WACC, of ABC.
The Dash board further shows three sets of data in the green, purple and orange boxes. These boxes correspond with the steps three to five in figure 7.2, i.e. defining respectively the synergies, synergies investment costs and the dis-synergies. For further explanation of these concepts the reader is referred to chapter 5 and 6.

A closer look on a fraction of for example the green box (figure 7.4) shows that the cash flows are organized per type of synergy source. The line ‘cost savings’ represents for example the cumulated cash flows per year of all types of cost savings anticipated to be achieved as a result of the acquisition. The last two lines resemble the total cash flows per year as a result of all synergies and the total standard deviations as a result of the uncertainty involved.

Figure 7.4: Fraction of the Synergy cash flow box in the dashboard of excel module 1.

By clicking on one of these sources, the user is referred to another tab in the excel module where the input has to be created. In this guide, the cost savings example is used which is shown in figure 7.5.

Figure 7.5: ‘Synergy cash flow: cost savings’-tab in excel module 1.

The cost-savings example in Figure 7.5 currently shows three tables. The first table is the summary of the tab showing the sum of the discounted cash flows and standard deviations per year, as well as the sum of the continuing or terminal values of all the cost savings identified by the user. The other
two tables are examples of specific cost savings. The first table shows for example the employment cost savings and the second table the cost savings achieved on real estate. The user can add as many synergies as he wants, by simply copy pasting a table and adjusting the formulas in the summary table for each year.

In figure 7.6 these cash flow definition tables used for defining the synergies, synergy investments costs and dis-synergies in excel module 1, are considered more closely.

For each table the user has to indicate which synergy, synergy investment or dis-synergy the table is referring to, this is done by providing a correct title to the table. In the table, the yellow cells indicate that input is required by the user. This input is organized following the ‘first Chicago method’, meaning that three scenarios are distinguished, these scenarios are: an optimistic scenario, a most likely scenario and a pessimistic scenario.

The optimistic scenario refers to a scenario where everything during the integration goes smoothly without any big issues and all objectives are fully met. While defining the synergies, the optimistic scenario thus shows the highest benefits while in case of investments and dis-synergies, the amounts are the lowest in comparison to the most-likely and pessimistic scenario. The pessimistic scenario in contrast represents the opposite situation, i.e. synergy creation is low while the synergy investments costs and the dis-synergies are high. The most likely situation lies somewhere in the middle.

The scenarios thus primarily refer to the expectations about the integration process in terms of the ease of integration and problems expected to be encountered over the five years project horizon. Of course this horizon can be extended by the user, by inserting more columns. The column, indicated by ‘CV’, which stand for continuing value, is filled in by the user when the user believes there will be more benefits/costs after the projected horizon. How this is done is however left to the user; an example of how to do this is provided in chapter 5.3 which explains how to calculate a cash flow multiplier; whether this can be used depends however on the type of the cash flow under consideration.

Related to the scenarios is the probability definition which assigns a chance of occurrence. The sum of the scenarios’ probabilities should count up to one; if so, the red cell in figure 7.6 turns green. The user can thus indicate his expectations about the future state, herein taking into account the context of the acquisition. When this context would for instance cause a lot of problems, the user is rather pessimistic and should indicate this by a relatively high probability for the pessimistic situation in comparison to the optimistic and most likely scenario. When the user is however unsure about the future process, a distribution where each of the scenarios is (almost) even likely to occur is entered.
In case the latter specifically involves a dis-synergy we refer to it as a ‘probability variance’ dis-
synergy.

Another way the model can incorporate uncertainty is to define highly differing cash flows between
the situations. This is best illustrated by means of an example. Take for instance a costs structure of
which you’re relatively certain the most likely situation will occur, however when the pessimistic
scenario takes place instead, the costs involved will increase dramatically. The valuation based
decision making tool would refer to these kind of dis-synergies as ‘flow variance’ dis synergies.

Considering what’s been said, it’s thus up to the user to ascertain the structure of the synergies,
synergy investments costs and the dis-synergies, but also to ascertain the process planning and the
context of this process in order to properly define the cash flows and the probabilities involved. The
latter is in fact done in the ‘advice part’ of this tool and the corresponding excel module II which is
discussed next.

7.3.4 ‘Advice part’ steps
Having defined the synergies, synergy investment costs and the dis-synergies, attention is turned
towards the ‘advice part’. This advice part considers the integration process and the contextual
factors influencing this integration process. Notice that the integration process taken into account
here, involves the process as it will or at least should be executed in case the deal is closed. The
advice part thus tries to anticipate on what is expected or likely to occur in an imaginary future
scenario of having closed the deal. What can be expected is the result of the process that would be
followed and the contextual factors because these factors influence in many ways if and how the
observed synergies are achieved and which investments and costs are incorporated in achieving
these synergies.

The process and contextual factors thus in fact influence the probabilities and cash flows defined in
module I the ‘monetary synergies & costs part’. The ‘monetary synergy & costs part’ in turn requires
again an adjustment of the integration process of module II causing an ongoing circle to exist
between both parts. These iterations are repeated until a balance is reached. Revision of the input
will follow a top-down approach commencing on a high level comprising relatively large changes and
as the number of iterations increases, the level of the changes lowers and their impact will become
smaller.

A high level change is for example the first time part II is executed; all potential synergies,
investments and costs are defined and the integration approach has to be chosen (figure 7.2). Choosing
an integration approach is done based on the objective of the acquisition identified in the
strategic justification step; the integration approach should support this objective. However, not all
of the anticipated synergies, investments and synergies defined in part I behave the same way; one
of the synergies would for example benefit of a preservation integration approach, while the other
flourishes with an absorption approach. The latter is of course a rather extreme example, however in
terms of scenario probabilities and cash flow definitions, changes will be present for sure. Take for
example the decision to choose for an absorption approach, investments costs for lay-off
compensation of employees will as a result of this decision increase.

As was said the amount of changes as well as their impact decreases as the number of iterations
increases. For instance, choosing an integration approach as discussed earlier (figure 7.2) is
preferably done only once and will probably be skipped after the first time. The number of iterations
does of course depends on the quality of the valuation process and the quality of the ‘advice part’
itself. The better both parts are executed the faster an equilibrium and thus a final decision is
reached.

In order to improve the quality of the ‘advice part’, it is chosen to approach it from an overhead costs
perspective. This explicitly doesn’t mean the overhead costs themselves are defined! Instead, the
concepts behind overhead costs, i.e., the management and control efforts needed to run the
integration process successfully, are chosen as a starting point. These efforts indicate in the end to
large extent which scenario and thus which monetary results will occur. Management and control
efforts in turn are the result of the integration process and the context of the acquisition as
mentioned earlier.

In the ‘advice part’, by means of excel module II, the relation between this integration process and
the contextual factors is assessed. Explanation of the ‘advice part’ is done using excel module II.

Excel module II, like module I, has on its first page a ‘dashboard’ as can be seen in figure 7.7. Apart
from the buttons which direct you to the tabs corresponding to one of the four steps of the advice
part, the dashboard also shows the activities of the integration process which, as was explained
earlier, functions as the basis for creating the advice. This process as defined by Haspeslagh &
Jemison (1991) consists of two phases each containing multiple activities. The first phase, called
‘stage setting’, is shown in the biggest table and the second phase, i.e. ‘value creation’, is shown in
the table under the previous one. The exact activities of the value creation phase, are however not
the same for every situation, they depend on the integration approach chosen. The first step in
creating an advice is therefore to define the integration approach, which is discussed in the following
section.
7.3.4.1 Choose integration approach

The first step in generating an advice concerning the acquisition, involves defining the right integration approach. Which integration approach to choose depends on the strategic rationale of the acquisition which is, when executed properly, defined in step 2: Strategic justification as discussed in section 7.3.2. The module distinguishes three integration approaches whereby following Haspeslagh & Jemison (1991); these approaches are:

- Preservation
- Absorption
- Symbiosis

For more information on these integration approaches and what exactly distinguishes them, the reader is referred to chapter 3. For now, the most important difference is the consequence of changing the integration approach. Namely, changing the integration approach causes the activities in the value creation phase to change which in turn causes the relative influence of the contextual factors to change as well; a big difference in culture between both firms (should) influences the advice of an absorption approach more than in case of a preservation approach. In the end, taking the iterative characteristic into account, setting the integration approach thus influences the valuation of the synergies, dis-synergies and investment costs as well. An important note here is to choose the integration approach which fits the strategic rationale best and not to choose the integration approach which fits the contextual factors and therefore the advice best! Although in case both parts are executed properly, choosing the integration approach based on the contextual factors would result in a sub-optimal outcome, i.e. the anticipated synergies will to large extent not
meet their expectations, the modules are of course abused fairly easy. The latter also increasing the importance of involving multiple stakeholders; it improves the discussion and minimizes the abuse of the modules.

Another point for discussion in the module between the stakeholders is the second step, setting the contextual factors. This step is discussed next.

### 7.3.4.2 Set contextual factors

Except from the activities in the integration process, the second important aspect at the basis of the advice being generated, are the contextual factors surrounding the acquisition. From literature, 14 influential factors have been identified. In step 6 of the valuation based decision making model these factors have to be rated on a five point scale from very different to very similar or from very low to very high depending on the factor description. For the description of these factors the reader is referred to chapter 3. Figure 7.8 shows a screenshot of this step in excel module II.

Figure 7.8: Screenshot step 7: set contextual factors.

<table>
<thead>
<tr>
<th>Set contextual factor</th>
<th>Scoring</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td></td>
</tr>
<tr>
<td>Product-market</td>
<td>Similar</td>
</tr>
<tr>
<td>characteristic</td>
<td></td>
</tr>
<tr>
<td>similarity</td>
<td></td>
</tr>
<tr>
<td>Technological</td>
<td>Very</td>
</tr>
<tr>
<td>knowhow similarity</td>
<td>different</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Organization</td>
<td></td>
</tr>
<tr>
<td>Culture</td>
<td>Different</td>
</tr>
<tr>
<td>Size</td>
<td>Different</td>
</tr>
<tr>
<td>Quality</td>
<td>High</td>
</tr>
<tr>
<td>Compatibility of</td>
<td>Very</td>
</tr>
<tr>
<td>acquisition vision</td>
<td>similar</td>
</tr>
<tr>
<td>Management Styles</td>
<td>Different</td>
</tr>
<tr>
<td>Power differential</td>
<td>Very</td>
</tr>
<tr>
<td></td>
<td>different</td>
</tr>
<tr>
<td>HR</td>
<td></td>
</tr>
<tr>
<td>Key talent</td>
<td>Very</td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Key manager</td>
<td>Low</td>
</tr>
<tr>
<td>Process</td>
<td></td>
</tr>
<tr>
<td>Experience</td>
<td>High</td>
</tr>
<tr>
<td>Communication</td>
<td>Very</td>
</tr>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Speed</td>
<td>High</td>
</tr>
<tr>
<td>Risk</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The score of these contextual factors will to large extent influence the eventual advice being generated and should thus be argued well. In order to do so, information should be retrieved by multiple stakeholders during for example the due diligence. The ‘advice part’ hereby remedies one of the often mentioned flaws in literature, i.e. only performing a due diligence on financial and legal grounds instead of also incorporating for example HR to consider the soft factors as well; soft factors referring to factors as culture and management styles.

Having defined the scoring of the factors, the following steps combines this with all the information of the previous steps, i.e. the strategic rationale, the synergies, synergy investment costs, and dis-synergies from the monetary part, as well as the integration approach of the advice-part.
### 7.3.4.3 Define activity priorities

To start, the user has to define the priorities regarding the individual activities of both the stage-setting and value creation phase. Figure 7.9 shows the template of excel module II where the user has to translate these priorities by means of dividing 100 points over the activities for each of the two phases.

Figure 7.9: Step 8 define activity priorities

<table>
<thead>
<tr>
<th>Activity Importance (100 points to divide)</th>
<th>Establishing Interface Management</th>
<th>Putting operations on an even keel</th>
<th>Instilling a new sense of purpose</th>
<th>Taking stock and establishing control</th>
<th>Strengthening the acquired organization</th>
<th>Developing mutual understanding</th>
<th>Building credibility up and down</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>10</td>
<td>20</td>
<td>10</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>

Which activity receives more points in proportion to the other activities primarily depends on the strategic rationale driving the acquisition. For a more elaborate explanation of the activities the user is referred to chapter 6.

### 7.3.4.4 Define factor priorities per activity

Defining the factor priorities per activity is the last step in combining all information to form a final advice concerning the acquisition. Figure 7.10 shows how this is done in excel module II; this figure specifically referring to the factor priority definition of the value creation phase when chosen for a preservation approach. The stage setting phase and the other integration approaches however use the same concept.

In figure 7.10, is seen which contextual factors relate to a certain activity. The relationships between factors and activity, which have been identified by the experts in the field of post-merger integration, are recognized by the orange or yellow coloured cells. Orange referring to a generic relation between the factor and the activity meaning that this relationship always exists; independent from the case (acquisition). The yellow cells in contrast depict the case specific relationships; whether they are important depends on the acquisition itself.

In defining the priorities of these factors, it’s up to user to divide 100 points per activity; the orange cells thus must receive a certain amount, while the decision to allocate some points to the yellow cells rests with the user and depends on acquisition case. White cells can’t receive any points.
As was the case with rating the factors and prioritizing the activities in the process, also prioritizing the influence of the factors on these activities should be well substantiated; prioritization should be in correspondence with the objective, synergies and dis-synergies of the acquisition. The stakeholders of the individual activities again having an important stake in this process. Identification of stakeholders to involve in the activities is done already by the M&A experts and the results are found in table 6.40 in chapter 6.4.

Having prioritized all the factors in relation to their activities a final advice is generated. This advice is found on the dashboard tab of excel module II (figure 7.7). The following section will place some concluding remarks in relation to this advice.

### 7.3.4.5 The final advice

After having provided all the input in steps six to nine of the valuation based decision making tool a final advice is generated on the dashboard of excel module II as can be seen in figure 7.7. In the tables of both the stage setting phase and the value creation phase also the intermediate results are depicted. Figure 7.11 depicts an example of the intermediate results in the value creation phase example of an acquisition following the preservation approach. As can be seen in the row ‘activity factor score’, the activity ‘nurturing the acquired organization’ does very well in relation to its influential factors; a score of 4,6 out of 5. In contrast ‘continued boundary protection (gate keeping)’ underperforms; only 1,2 point from 5 in total. These scores in relation to the priority of the activities, as defined by the stakeholders as well (row ‘activity priority’), eventually generate a final score for the value creation phase. The final score in this example is 2,74 out of the maximum of 5 points. On basis of this figure of the value creation phase it can be concluded that it’s very uncertain whether the observed value creation is reached. Later during the iterative circles, the information from this table should of course also be reflected in the cash flows and probabilities of the synergies, synergy investment costs and dis-synergies defined in module I.
The same analysis as done for this value creation phase preservation example, is executed for the stage setting phase. The final table of the dashboard shows the performance of both phases and draws a final conclusion. The latter is done by equally weighing both phases.

Now that both the monetary as well as the non-monetary advice are generated the final step of the acquisition decision making tool is executed.

### 7.3.5 Acquisition decision

In the final step of the decision making tool the advices generated in both parts, are to be compared by the decision maker. Also taking into account the ‘normal’ financial intrinsic value and legal due diligence as it is already executed by ABC. Question here is whether the financial advantages weigh up to the advice. Depending on the outcome further action is taken or not. In case of a positive decision, i.e. a decision to go ahead with the deal, negotiation between the acquirer and the target may commence.

The monetary value calculated in excel module I, is during these negotiations an important number. This valuation represents the amount which is left to negotiate about during negotiation with the seller. Notice however that this value doesn’t include any management and control costs; this is covered by the advice part.

In terms of the value definitions by Eccles et al. (1999) as depicted in figure 5.1, the financial valuation of part I is the difference between the market value and the synergy value. Our part I valuation figure only accounts for the extra benefits and disadvantages of the deal; the intrinsic value isn’t incorporated. However, as is argued here the seller also accounts for this intrinsic value and the intrinsic value is therefore for now of lesser importance; we are especially interested in the gaps between market value, purchase price, and synergy value. A difference between the purchase price and the market value being bigger than the valuation of part I thus directly implicates a bad deal and another failing acquisition when failure is defined as destroying value.

Next to delivering the information for the negotiation between acquirer and target during the acquisition decision making step, the information generated in the previous steps is combined to create a M&A integration plan. A lot of the required input in both modules already implicitly asked to think about such an integration plan; think for example about when to make the synergy investments costs and what their influence is on the cash flows of the synergies these investments refer to. The information in order to generate this implementation plan is thus already present in the heads of the
stakeholders and the substantiation of the decision they had to make earlier; it only has to be written down by them in the form of a document which can be used after closing the deal while integrating the firm as a guide and progress checklist. This document, the synergy & costs-part, and the advice-part thereby make the acquisition procedure better planned and less optimistic.

7.4 The valuation based decision making tool: conclusion and discussion
The valuation based decision making tool as presented in chapter 7 is a tool which provides the user with an integrated approach to support the M&A decision making. It is an integrated approach both taking into account the monetary assessment of the effects on the valuation as a result of an acquisition as well as the organizational advice part. This integrated approach is also the strength of the tool; the iterative character which exists between both parts causes the eventual decision to be more accurate and better substantiated. Besides, also the planning and responsibilities of the various stakeholders in this planning are better defined.

The tool is, according to the author -who might of course be prejudiced- easy to use, but it still leaves room for adjustment to the changing characteristics of the different acquisitions. No one acquisition is exactly the same which could easily lead to a tool where the overview and usability is lost. The result of this trade-off between a more general tool which is easy to use on the one hand side and a more detailed case specific but harder to use tool on the other side, is that concessions had to be made. For the monetary part these concessions are not as far reaching as for the advice part which tries to catch the context of the acquisition in a model; a context which in reality involves very complex interrelationships between factors and the process but also between the factors themselves. In favour of its generalisation, the tool leaves the factor scoring of their relative importance in comparison to each other to the end user which makes it of course questionable whether the proper distribution is chosen; whether each factor gets the attention it deserves. The tool further doesn’t incorporate a lot of the complexity in the factor scoring itself. The rate of the factor is provided by the end-user on a five point scale from very low to very high, or from very different to very similar, after which these factors receive points from one to five. The factor quality for example receives five points when the user rated it as very high, while it receives one point in case the quality is very low. The factor quality is however very straightforward; after all, high quality is always preferred over low quality. For other factors this is however not so clear, take for instance the factor speed, even literature still isn’t decisive over the preferred pace of integration; some argue for slow integration, others argue for fast integration, and still others argue for an intermediate approach. As was read in chapter 3, speed according to Homburg & Bucerius (2006) depends on the situation; sometimes speed is beneficial while in others it may not. Whether speed is beneficial thus depends on other contextual factors. The uncertainty as a result of such complex interrelationships between factors holds for other factors as well. In this model all these interrelationships between the different factors are however not incorporated. Including these relationships in the model not only would have asked for a whole new research, it would also ask a lot more from the end user and thereby would lower again the usability of the tool which isn’t preferred.

For the factor speed is therefore chosen for the middle course where a ‘neutral’ rating by the user receives five points, ‘low’ and ‘high’ both receive three points and ‘very low’ and ‘very high’ receive two points. This distribution causes the standard deviation of the factor to be lower and the influence of the factor ‘speed’ is thereby somewhat more levelled. Regarding the potential overlap of other factors such as between ‘culture’ and ‘management styles’, no further measures are taken.
Thereby room is left for improvement and discussion in further research. Though, to some extent the end user will take care of this overlap automatically because these factors will in their assessment not deviate so much from each other; when the cultures differ a lot, the management styles will probably differ as well. Besides, in dividing 100 points over the factors influencing a certain activity where both factors are present, these factors will mainly struggle for the same number of points; e.g. when 30 of the total 100 points have to be divided over these two factors, it is considered likely both receive an almost equal amount of points, thereby again reducing the impact in case the factors would deviate a lot.

The valuation based decision making tool designed and described in Chapter 7 thus accounts for the uncertainty to some extent automatically. Though further research might be beneficial and is therefore advised. Nonetheless, the description of the tool being designed has rounded off this research. The following chapter draws a final conclusion and discusses the findings.
8 | Conclusion & Discussion

8.1 Introduction
In the end all the reasons for a company to merge or acquire another company are rooted in one single reason which is to survive the changing market place. Behind this single reason lies however the implicit assumption of the firms’ management that by means of this merger or acquisition value is created or at least no value is being destroyed. The latter even being true for the acquisition reason where an acquisition is done in order to not let a competitor take advantage of it; after all, a future advantage for your competitor means a worse position in the future for yourself and thus value destruction. History learns however that often this implicit assumption of not destroying value or preferably value creation, doesn’t hold. In fact, more than half of the mergers and acquisition have failed and still are failing; failing in not creating the value which should have been created and not taking full advantage of the combination’s potential.

Also in case of ABC, the firm acting as the acquirer in this research, it was questioned whether they took full advantage of the combination potential after a certain acquisition; in fact it was questioned whether the acquisition strategy matched the corporate strategy. Reasons to have a closer look at ABC’s M&A process and eventually to design a solution thereby improving ABC’s M&A process.

8.2 Analysis
In order to improve ABC’s M&A process, first an analysis of their current process had to be made. Prior to this however, in chapter 3, a literature study was conducted. On basis of this literature study the current M&A process of ABC was analysed, making a comparison between literature and practice. This confrontation resulted in a cause and effect diagram, which is also known as a problem mess and is presented in section 4.3. The main findings of the confrontation were that ABC’s M&A decision making process has a rather ad hoc and opportunistic character and the decision to acquire a firm was driven by personal/emotional involvement of the acquisition initiator. Both findings as concluded being the result of the absence of a formal acquisition procedure.

Defining a complete formal acquisition procedure was however considered to extensive for this research, besides whole books covering this subject are written already (books which considering the number of M&A failures apparently aren’t appealing enough or do not reach their goal because putting in place what they argue for is too extensive for a lot of firms). This ‘time restriction’ thus asked for a solution which is relatively easy to design and subsequently easy to use as well, but which covers the same content as a formal acquisition procedure.

This solution was found in the value determination of the target firm. After all, setting the correct value for an acquisition doesn’t only contribute to merger success directly, because many acquisitions fail as a result of the acquirer having paid too much for the target firm (Eccles et al. 1999; Schweiger & Very, 2003), setting the correct value also asks for quantification of the anticipated synergies and of the different cost factors. Quantification of the synergies thereby meets the reasoning of among others Haspeslagh & Jemison (1991) and Galpin & Herndon (2007) who state that a formal acquisition procedure commences with the identification of how both firms reinforce each other and thus how it contributes to the existing business. Quantification of the different cost factors in contrast causes the acquirer to think about how these advantages are reached, which investments have to made, which problems potentially lowering the intrinsic value of the target firm.
must be overcome, but also which problems are encountered which will disturb the achievement of the anticipated synergies. The costs thereby relate to the context of the acquisition too large extent, after all, these potential problems often result from the context surrounding the acquisition.

A valuation based solution we may state thus in fact triggers the acquirer to think about the integration process; the acquirer has to anticipate in the decision making stage on the problems of the integration phase as a result of the acquisition context. The acquirer is indirectly thus being triggered to create an acquisition plan. This acquisition plan is in turn exactly the purpose of a formal acquisition procedure whose absence was considered the main problem of ABC’s M&A process. This thesis thus doesn’t develop an acquisition procedure for ABC, but a valuation method which indirectly effectuates the development of an acquisition plan.

The main research question of this thesis thus runned as follows:

*How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?*

This research question is answered in the thesis by first considering the main aspects in this question, i.e. value, synergies and costs. The aspect ‘acquisition context’ was described earlier already in the literature review which was needed to analyse the current acquisition process of ABC. The findings of the other concepts are discussed here very briefly.

Considering the concept value, four types of value are identified thereby following Eccles et al. (1999), these are: intrinsic value, market value, purchase price and synergy value. The synergy value is the intrinsic value of the target firm but also incorporates the benefits as a result of the acquisition. The purchase price however also incorporates a part of these advantages; after all, the seller being partly responsible for these advantages also wants to receive a share of these benefits. The acquirer therefore often has to pay a premium on top of the market value together determining the purchase price. This value which thus should be higher than the purchase price is called the synergy value. This synergy value in theory is thus higher than the purchase price, in practice this value must however still be created. In case this synergy value in practice is not realized and doesn’t extent the purchase price, value is destroyed and the acquisition must be considered a direct failure. The synergy value is thus an important value to consider in valuing the target firm and in particular thus the combination benefits which are known as the synergies. These synergies are found in either of the following five sources (Eccles et al., 1999): cost savings, revenue enhancements, process improvements, financial engineering and finally tax benefits. However, determining the exact value of these synergies is especially for some of them challenging; realization sometimes involves a lot of uncertainty. Still a valuation must be made in order to set an accurate synergy value which can subsequently be used in the negotiation. As is argued in this thesis, valuing these (uncertain) synergies is best done by focussing on the process, after all it is in this process where the uncertainty is noticed and where it must be overcome. The uncertainty of realizing these synergies is the result of the acquisition context and the accuracy of the measures in the process to deal with the context. The better the insight in the process and the context, the better the measures and subsequently the better the synergies can be valued. The former, i.e. better insight in the process and the context, is achieved best, as argued in this thesis, by focussing on the costs; the third aspect of the main research question discussed in the thesis and briefly discussed here.
Focussing on the process and its context is as is said already done best by focussing on the costs. These costs are directly related to the execution of the activities in the process, the problems encountered during this process, and in turn to the activities in preventing these problems to occur, to deal with the problems in case they do occur and to the activities related to setting the stage in order to realize the anticipated synergies. Focussing on the costs thereby contributes to reducing the M&A failure rate in three manners:

- Focussing on the costs helps in a more accurate valuation of the synergies by providing insight in the uncertainty involved in realizing these synergies
- Focussing on the costs makes the valuation more accurate because it directly lowers the synergy value and an accurate purchase price can be determined
- Focussing on the costs indirectly reduces the M&A failure rate because it effectuates a better planning and guidance in the integration process. The latter increases the probability problems are dealt with properly, but as important, it increases the probability the anticipated synergies are indeed being achieved.

In the thesis three types of costs are recognised, these are dis-synergies, overhead costs and synergy investments costs. All three are summarized here briefly.

Dis-synergies: Dis-synergy is the opposite of synergy. In case of synergies the combination of the both companies creates value both firms would not have created when they would have stayed independent. In contrast in case of dis-synergies the opposite happens; value is destroyed as a result of the acquisition in both the target firm and in the acquirer. An example of a dis-synergy is for instance when a customer as a result of the uncertainty accompanying an acquisition goes to one of the competitors. Or the acquisition causes a former customer to become a competitor himself. The latter might be the case in horizontal acquisitions. In both examples value is destroyed which should be accounted for in the synergy value.

The examples given are relatively clear, however all kind of dis-synergies exists. The thesis organises these dis-synergies along two axis thereby distinguishing the fixed dis-synergies and three types of variable dis-synergies. The resulting quadrant is found in figure 8.1.
As is seen in the quadrant the ‘predictability of occurrence’ and the ‘predictability of costs-height over time’ distinguish the dis-synergy types. This characterization thereby helps to focus on how to manage these cost types, either through measures which prevent them from occurring, through measures focussed at minimizing their effects, or a combination of both. These measures however also involve costs, costs covered by the second cost type identified, i.e. overhead costs and discussed next.

**Overhead costs:** The costs related to the prevention and counter measures meant to prevent the dis-synergies from occurring and to minimize their effect are covered by the second cost type identified in this thesis, i.e. the overhead costs. This cost type further includes those costs which are the result of the measures performed in order to set the stage for the realization of the synergies. The overhead costs are thereby thus the cost type which is directly related to the integration process itself and the context forming this process.

**Synergy investment costs:** The final type of costs identified in the thesis is the synergy investment costs. This cost type represents those costs which are made in order to realize one specific synergy. The investment costs thus should result in their realization and are found in relation to all of the earlier mentioned synergy sources. An example of a synergy investment cost is the lay-off compensation which results from the costs saving synergy; employment.

Having indentified the different kind of costs in the thesis, these costs had to be valued. Describing these costs is one, however valuing them is in some cases a lot harder. The synergy investments costs are estimated quite accurately, as is the same for the fixed dis-synergies characterized by a high predictability of both occurrence and cost-height. However, estimating variable dis-synergies and overhead costs is a lot harder; both depend on the process and the acquisition context. Besides, the variable dis-synergies and overhead costs are related to each other as well; after all, the measures represented by the overhead costs determine the height of the total variable dis-synergies.

Nevertheless the variable dis-synergies are valued as well. Distinguishing the variable dis-synergies based on predictability of occurrence and cost-height over time, causes them to conform very well to the First Chicago valuation method (Kiholm Smith & Smith, 2004; Steffens & Douglas, 2007) where is
chosen for in this thesis. This method requires from the user to define three scenarios (optimistic, most likely, pessimistic), the probability these scenarios occur, and a cash flow division in line with these scenarios over time. ‘Predictability of occurrence’ of the dis-synergies thus relates very well to the probability distribution of the scenarios and ‘predictability of costs-height over time’ relates to the cash flow division over time related to these scenarios. The First Chicago methods thus enables the user to value the variable dis-synergies as well and the focus is further on the overhead costs.

Valuing the overhead costs is however still considered very difficult and would become too complex. It is therefore decided not to value the overhead costs but to generate an advice instead. An advice which is based on the measures behind these overhead costs. These measures being based in turn on the activities in the integration process, the integration approach and their relations with the surrounding context. This advice thereby still provides the insight in the process and the context which is considered so important in valuing the synergies and dis-synergies and in the end decreasing the M&A failure rate. Besides, the input for the advice is provided by the stakeholders of the activities which makes the assessment more reliable and increases the chance the activities are executed properly.

Answering the research question:

How should ABC value the target firm incorporating synergies and cost factors resulting from the acquisition context?

It is thus concluded in the thesis that ABC’s target valuation should make use of two parts; a monetary part and a advice part which by the relation existing between both parts, results in a valuation which is more accurate and provides insight in the integration process as well.

8.3 Solution

Eventually a valuation based decision making tool is designed in the thesis incorporating both the monetary part and the advice part. The monetary part accounts for the synergies, synergy investment costs and dis-synergies. Do notice though that the tool hereby only incorporates those effects which are the result of the combination. This means that the valuation of the intrinsic value of the target firm which ABC already makes still has to be made. The valuation described here thus must be considered as an addition on the current valuation method. The advice part accounts for the integration process as defined by Haspeslagh & Jemison (1991) and thereby automatically incorporates the activities of the stage-setting, the activities of value creation phase, and the context of the acquisition. Combining both parts results in the steps of the tool as depicted in figure 8.2 and two excel modules. The excel modules corresponding to the monetary and advice part. For further explanation of these excel modules the reader is referred to chapter 7.
Figure 8.2 clearly shows the connection between the ‘monetary synergy & cost part’ and the ‘advice part’. This iterative character thus eventually causes ABC’s valuation to become more accurate as the number of iterations increases and their insight in the process becomes more detailed.

It may be clear now that the solution contributes on several ways to a better valuation of the target firm and improves the insight in the process and context which in turn improves the acquisition integration process. These implications are however rather general and the following section therefore considers the implications of the tool on the current M&A process of ABC, hereby specifically referring to the problems as they were observed in the early chapters of this research.

8.4 Implications to ABC
The M&A acquisition process of ABC and especially the decision making was found to be rather ad hoc and opportunistic, besides the personal/emotional involvement of the acquisition initiator was considered problematic. The tool as presented here makes an end to both of these problems which can be considered a big improvement already as both problems can lead to multiple reasons for failure of an acquisition. The tool makes the decision more rational by providing a well substantiated monetary value in combination with an advice which is based on the process and the context surrounding the acquisition. Besides, the tool, by incorporating the multiple stakeholders in the decision making stage who will be responsible for integration of the target firm in a later stage, enhances the internal discussion thereby preventing potential distortion of the evaluations and assessment as a result of personal/emotional involvement of the acquisition initiator.
The tool further makes the process better planned, not only in the integration phase but in the decision making phase as well. Clearly defining the potential synergies and dis-synergies, steers the further assessment of the firm, especially in combination with the advice which anticipates on the integration process; both give the stakeholders a grasp on where to focus at while performing the due diligence. The latter is most clearly seen in rating the influential factors from the context. Scoring these factors doesn’t only give the stakeholders reason to search for information in the target firm which indicates the score of these factors, they also provide food for thought in how these factors would potentially influence their part of the process where they subsequently have to think about and gain information for in the target firm as well.

The tool thus provides the goal and the handles to direct and plan the process. This in turn also counters another problem which was observed, namely, the often mentioned time restriction causing an elaborate due diligence not to be performed specifically in case of a bankruptcy based acquisition. The tool, by incorporating multiple stakeholders and a clear process as explained, causes the due diligence to be performed a lot more efficient and effective. Of course time restrictions exist and are tough, however, following Galpin & Herndon (2007, pp. 14) they may not result in “hurrying the fact-finding process, omit key parts of it or gloss over it in the rush to do the deal”. By making the process more efficient and effective the influence of ‘time restrictions’ is limited.

Another observation which was considered to form an important problem in the current M&A process was the absence of a formal integration manager. The acquisition decision making tool is, and doesn’t create an integration manager, however this manager is still preferred and it is therefore advised to ABC to put one in place. On the other hand, considering the main role such an integration manager would fulfil, i.e. putting a formal acquisition procedure in place and organize the process, it is argued that the tool does realize to large extent what this manager would do as well; setting goals and plan the process. Nonetheless a formal acquisition manager who (interactively) controls and manages the process in both the decision making phase as well as in the integration phase is advised.

Still, the six criteria identified by Haspeslagh & Jemison (1991) and mentioned in section 3.2.1, which can be used to evaluate the outcome of the decision-making stage are all met to large extent. These criteria are (Haspeslagh & Jemison, 1991): the quality of the strategic assessment, widely shared view of purpose (agreement on strategic logics), the degree of specificity in sources of benefits and problems, regard for organizational conditions, the timing of implementation and finally the maximum or walk-a-way price. Overall considering the implications of the valuation based decision making tool for ABC it is thus concluded that the tool is a big leap forward in improving the valuation of the target firm and the M&A acquisition process of ABC and eventually reduces the chance on acquisition failure.

So far the implications of the thesis and its’ solution for ABC. Now the contributions of the thesis and the tool to literature are considered.

8.5 Contributions to literature
Mergers and acquisitions have often failed and still a lot of them fail despite the numerous studies which have been devoted to this subject. Many scholars have argued the projected level of value creation isn’t reached as result of an inappropriate and failing integration process of the combining firms (Pablo, 1994; Schweiger & Goulet, 2000; Schweiger & Very, 2003). Shrivastava (1986) and Haspeslagh & Jemison (1991) in the late eighties begin nineties argued that M&A failure often starts
already in the pre-acquisition decision making stage with a poor merger partner selection as a result of a poor M&A analysis and the absence of a good strategy, both eventually leading again to a poor integration. Although lots of literature has build on this insight and perhaps even improved it by making it somewhat more accessible to practitioners as Galpin & Herndon (2007) have done, still M&A’s often fail. It has thus been argued in this thesis the current literature, although being comprehensive, doesn’t reduce the M&A failure rate and thereby misses its purpose. This study, through analysing the M&A process of one particular firm, has delivered a valuation based solution capable to improve the success rate.

As is argued by amongst others Eccles et al. (1999) and Schweiger & Very (2003), many failures occur simply because too much is paid for the target firm. The solution presented here contributes to reducing these kind of failures through providing a more accurate valuation. The solution hereby already follows the reasoning of Shrivastava (1986) and Haspeslagh & Jemison (1991) who, as was said already, argue for a better pre-acquisition decision making analysis. Current literature primarily focuses on the benefits of an acquisition and a failing M&A project is thus often explained in terms of synergies which aren’t realized. The costs-side of an acquisition thereby often remains underexposed. For instance Eccles et al. (1999) who themselves argue often too much is paid, as well as Brealey et al. (2006), don’t take this cost aspect into account or take it into account in a very implicit manner. The thesis argues that thereby the ‘downside’ of an acquisition doesn’t get the attention it deserves and current literature thereby in fact stimulates the acquirer’s focus on finishing the deal no matter what instead of providing the much needed counter perspective reducing their opportunism or the managerial over-commitment as Haunschild et al. (1994) refer to it.

The thesis and the valuation based solution have defined the different cost types, i.e. dis-synergies, synergy investment costs and overhead costs and finally have provided insight in how these different costs are related to each other through the M&A process, herein distinguishing the different integration approaches as well. As argued in this thesis the costs thus should in fact be one of the primary components to focus at; costs not only are the direct result of problems encountered during integration, they also relate to the process of achieving the anticipated synergies and thereby are related to the often mentioned reason of failure, i.e. a failing integration process which doesn’t achieve the anticipated value.

Through the focus on the costs, the solution thus knows to bind the literature from different research fields, i.e. strategy, organization theory, human resources and the process perspective, to the bigger (process) picture. Literature on for example the cultural differences and the related integration problems in the integration process such as uncertainty leading to conflict (Schweiger & Goulet, 2000) and subsequently to the loss of key talent (Kay & Shelton, 2000; Schular & Jackson, 2001) or loss of customers (Galpin & Herndon, 2007) are made more explicit now. Besides, as was found in the analyses of the firm as well, companies know already culture is an important factor to consider, and although literature has written about it extensively, during the due diligence in many companies the ‘soft aspect’ still doesn’t get the attention it should get. This is, as argued by the author, the result of the fact that the results or benefits of paying attention to these kind of factors aren’t very clear.

An important aspect where this thesis contributes to literature thus isn’t so much related to the cause of the problems identified; this is done already in current literature, instead the contributions are found in the translation of these findings of existing literature to practice. Current literature as
argued doesn’t know how to get its meaning across to a large part of the public. The existing ‘M&A guides’ such as the one of Galpin & Herndon (2007) are probably primarily read by acquisition managers, present in companies who, given the fact an acquisition manager is present, thus already pay extra attention to the M&A process and are aware of the risks involved in the process. And although I argue for an acquisition manager as well, the knowledge from literature should be made more accessible and integrated to ensure also the other part of the public, the part causing the failure rate to be relatively high, is reached. The latter is exactly where the thesis and especially the solution are capable of.

Through the valuation based decision making tool incorporating a monetary part which quantifies the synergies, synergy investment costs, and dis-synergies and an advice part focussing on the contextual factors and the integration process, an approach is designed which integrates the ‘pre-acquisition decision making’ and the ‘post acquisition integration’ as was argued for by among others Haspeslagh & Jemison (1991) and Shrivastava (1986). Besides, by identifying the relationships between the contextual factors and the integration process as well as the relationships between multiple stakeholders and the integration process more insight is created; this thesis not only argues for the incorporation of factors and stakeholders, it also prescribes when and in which manner they should be involved. Besides, the effect of incorporating the factors and stakeholders can be observed in the monetary as well as in the advice part and thus makes the ‘added value’ of their incorporation to be more tangible.

Referring again to existing literature, the tool in the end, as mentioned in the previous section, thus meets the six criteria identified by Haspeslagh & Jemison (1991) and used to evaluate the outcome of the decision-making stage, being: the quality of the strategic assessment, widely shared view of purpose (agreement on strategic logics), the degree of specificity in sources of benefits and problems, regard for organizational conditions, the timing of implementation and finally the maximum or walk-away price. Meeting these criteria is a first step in a successful integration process as well and the tool thus directly contributes to M&A success through reducing the chance on paying too much and indirectly through a better start of the integration process.

8.6 Limitations & directions for further research
Although this thesis and tool is believed to contribute in improving the success rate of mergers and acquisitions, the thesis and tool also have some limitations leaving room for discussion. These points for attention and future research are discussed in this chapter.

The first point for attention concerns the fact that the tool never has been tested in practice, which is considered to be an important limitation. Future research should therefore consider the tool’s functioning by executing the steps of the tool and compare the results for the monetary as well as for the advice part with the actual results of the M&A project. In case of significant deviation it must be questioned where the deviation comes from and whether it should have been foreseen by the tool. If yes, then it must be questioned whether it is the result of the tool’s functioning in terms of usability and purpose or whether it is the result of the content which is inappropriate, a combination of both of course not being excluded.

Considering its usability and purpose, the tool is too large extent based and depending on the involvement and input of multiple stakeholders thereby aiming on a broader assessment and a broader internal discussion. In case of deviation in the results it thus must be questioned this is the
result of the fact that not every stakeholder was involved or that they were involved but the usability and iterative character of the tool doesn’t function properly and thereby the internal discussion isn’t enhanced as it was envisioned in the end delivering an incorrect advice. Furthermore, the adaptability of the tool to different acquisitions with different contexts also makes the tool vulnerable for abuse in the sense that input can be adapted until a positive advice is reached. This potential abuse is in theory prevented by incorporating multiple stakeholders and the internal discussion. However when the tool doesn’t function as it is envisioned and the internal discussion isn’t enhanced, the potential for abuse increases in the end leading to a deviation between the results of the tool and the results in practice.

A potential deviation in the results between tool and reality might of course also be the result of the content of the tool in terms of the handles it provides, i.e. the contextual factors. A factor not included in the tool, which in practice, although the thesis tried to exclude this possibility by interviewing experts, has appeared to be very important, could contribute to a deviation of the advice and practice. This brings us to another import (content related) limitation of the thesis and the tool, being: the translation of the factor scoring through their influence on the final advice.

As explained in the thesis the stakeholders have to score the factors on a five point scale from very low to very high, or from very different to very similar. Subsequently, related to their scoring these factors receive points for their score from one to five. This is of course a rather straightforward method and it is believed that this translation must be subjected to further research which also considers interrelationships between factors and between factors and the activity. The tool would thereby resemble the complexity of the context itself and its relationship with the process more accurately. Here this complexity was omitted and the translation is incorporated as it is described above because in the first place incorporating this complexity would have needed another fully independent research and besides it would increase the complexity and thereby the usability of the tool as well.

Though, further research on the factors would definitely improve the tool and would also improve the understanding on why M&A’s often fail. This kind of research could further also focus on incorporation of industry or firm specific factors and stakeholders, thereby making the tool less general and more specific. Currently the tool is rather general; the stakeholder ‘operations’ for example could, as was argued by one of the experts interviewed, distinguished further into the primary process of the firm incorporating for example manufacturing and logistics. This would enable the development of industry specific tools as well as tools distinguishing between service and manufacturing firms.

The fact that one of the experts indicated the stakeholders can be distinguished further based on the primary process relates to a limitation and point of discussion about the thesis. This advice wasn’t incorporated in the tool because the majority rule is used and of the three experts interviewed only one mentioned it. Though, when the findings of the first round interviews were subsequently communicated again, this would possibly result in a different outcome because the experts confronted with the opinions of their colleague-experts might agree with them. Also here further research is preferred.

Finally another content based point of discussion is treated. Next to the factors incorporated in the tool as well as the manner the points are assigned to these factors, also the process by Haspeslagh &
Jemison (1991) which is used as framework for the advice part, may be point for discussion. It must be discussed whether a process description from 1991 is still relevant and up-to-date. The process of Haspeslagh & Jemison (1991), as is argued by the author, is very useful because it distinguishes the activities in a stage-setting phase and a value creation phase; the activities in the latter phase depending on the integration approach chosen. Exactly this is what makes this process so useful for this thesis; it helps the stakeholders to take notion of the difference and what is considered important for them. The more recent process description by Galpin & Herndon (2007) also notices the different integration strategies but doesn’t distinguish in the activities of these approaches as clearly and according to the author thereby doesn’t provide the same insight as the process by Haspeslagh & Jemison (1991) does. Especially in the decision making stage, where this tool operates, clearly distinguishing the activities provides direction for the stakeholders and thereby is a big advantage; thus a very good reason to use the tool of Haspeslagh & Jemison (1991) as a framework.

To wrap up: There is room for improvement especially concerning the factors, their interactions and the way their influence is translated, future research should thus concentrate on these aspects. Nonetheless, the thesis and tool as presented are still considered very useful in improving the success rate of mergers and acquisitions.


Appendix 1: The central role of risk in the acquisition process

- “P1a: The effect of strategic fit on the perceived riskiness of an acquisition candidate will be contingent on decision-maker’s risk propensity. Specifically, the lower the decision maker’s risk propensity, the more increased strategic fit will lead to decreased candidate riskiness. For more risk seeking decision makers, this negative effect will be weaker and potentially even reversed (Pablo et al., 1996, pp. 729).

- “P1b: The higher an acquisition candidate’s level of organizational fit, the less risky that candidate will be perceived to be” (Pablo et al., 1996, pp. 729).

- “P1c: The higher a decision maker’s risk propensity, the more heavily they will weight strategic fit issues and the less heavily they will weight organizational fit issues (Pablo et al., 1996, pp. 730).

- “P2: The extent to which prior performance affects the perceived riskiness of an acquisition candidate is moderated by the decision maker’s risk propensity. Specifically, the effect will be stronger the more risk averse the decision maker” (Pablo et al., 1996, pp. 731).

- “P3: The extent to which the level of resource requirements affects the perceived riskiness of an acquisition candidate is moderated by the decision maker’s risk propensity, Specifically, the more risk averse the decision maker, the more strongly increases in resource requirements will lead to increases in perceived risk” (Pablo et al., 1996, pp. 731).

- “P4: The effect of decision criteria vagueness on a decision maker’s weighting of those criteria will be contingent on the decision maker’s risk propensity. Specifically, the more risk averse the decision maker, the more strongly increases in criteria vagueness will lead to decreases in criteria weighting” (Pablo et al., 1996, pp. 732).

- “P5: Decision makers will choose an acquisition target from the ‘final’ slate of candidates presented to them, rather than try to modify the risk profile of their choice options by searching for other candidates or abandoning the acquisition strategy” (Pablo et al., 1996, pp. 734).

- “P6: The extent to which increases in the perceived riskiness of the acquisition candidate lead to increases in the duration of the pre-acquisition stage is moderated by the decision maker’s risk propensity. Specifically, the effect of perceived riskiness on duration will be stronger the more risk averse the decision maker” (Pablo et al., 1996, pp. 736).

- “P7: The lower a decision maker’s risk propensity, the more decision makers (or decision groups) will be involved in the pre-acquisition stage” (Pablo et al., 1996, pp. 736).

- “P8a: The higher a decision maker’s risk propensity, the more decision deferral there will be in the pre-acquisition stage” (Pablo et al., 1996, pp. 737).

- “P8b: The extent to which higher decision-maker risk propensity leads to greater deferral is moderated by the level of perceived risk in the acquisition situation. Specifically, the lower the level of perceived risk, the stronger the effect will be” (Pablo et al., 1996, pp. 738).

- “P9a: The effect of level of integration on the perceived riskiness of an integration approach will be contingent on decision-maker risk propensity. Specifically, the lower the decision maker’s risk propensity, the more an increased level of integration will lead to a decrease in the perceived risk of that approach to integration” (Pablo et al., 1996, pp. 739).

- “The effect of risk propensity on the level of integration chosen is contingent on the perceived riskiness of the acquisition situation. Specifically, the higher the level of perceived acquisition risk, the weaker the effect will be” (Pablo et al., 1996, pp. 740).
# Appendix 2: Stakeholder - Activity relations original data

## Appendix 2.1 stakeholder data stage-setting phase

<table>
<thead>
<tr>
<th>Phase activities</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage setting</strong></td>
<td></td>
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<tr>
<td>Establishing interface management (gate keeping)</td>
<td>G* N.A. S</td>
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<tr>
<td>Firm A</td>
<td>G* N.A. G</td>
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<tr>
<td>Firm B</td>
<td>G* N.A. G</td>
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<tr>
<td>Firm C</td>
<td>G* N.A. G</td>
</tr>
<tr>
<td>Putting operations on an even keel</td>
<td>G G* G G G S S G G G</td>
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<tr>
<td>Firm A</td>
<td>G G* G G G G G G G</td>
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<tr>
<td>Firm B</td>
<td>G* G S G G G G G</td>
</tr>
<tr>
<td>Firm C</td>
<td>G* G G G G G</td>
</tr>
<tr>
<td>Instilling a new sense of purpose</td>
<td>G G* S S G</td>
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<tr>
<td>Firm A</td>
<td>G G* G G G G G G</td>
</tr>
<tr>
<td>Firm B</td>
<td>G* G G G S S</td>
</tr>
<tr>
<td>Firm C</td>
<td>G* G G G</td>
</tr>
<tr>
<td>Taking stock and establishing control</td>
<td>G G* G G G S S</td>
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<tr>
<td>Firm A</td>
<td>G G* G G G G G G</td>
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<tr>
<td>Firm B</td>
<td>G G* G G G S S G</td>
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<tr>
<td>Firm C</td>
<td>G* G G G G G</td>
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<tr>
<td>Strengthening the acquired organization</td>
<td>G* G S G G G G G G G</td>
</tr>
<tr>
<td>Firm A</td>
<td>G* G G G G G G G G</td>
</tr>
<tr>
<td>Firm B</td>
<td>G G S S S S S S G G</td>
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<tr>
<td>Firm C</td>
<td>G* G G G G G G</td>
</tr>
<tr>
<td>Developing mutual understanding</td>
<td>G G* G S S S S S S</td>
</tr>
<tr>
<td>Firm A</td>
<td>G G* G G G G G G G G</td>
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<tr>
<td>Firm B</td>
<td>G G* G G G G G G G</td>
</tr>
<tr>
<td>Firm C</td>
<td>G* G G G G G G</td>
</tr>
<tr>
<td>Building credibility up and down</td>
<td>G G* G G G</td>
</tr>
<tr>
<td>Firm A</td>
<td>G* G* G</td>
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<tr>
<td>Firm B</td>
<td>G* G</td>
</tr>
<tr>
<td>Firm C</td>
<td>G* G G G G G G</td>
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</tbody>
</table>

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104
Appendix 2.2 stakeholder data value creation phase Preservation

<table>
<thead>
<tr>
<th>Value Creation in Preservation</th>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Continued Boundary protection (gate keeping)</strong></td>
<td></td>
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<tr>
<td>Firm A</td>
<td>G</td>
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<tr>
<td>Firm B</td>
<td>G*</td>
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<tr>
<td>Firm C</td>
<td>G</td>
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<td>G*</td>
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<td></td>
<td>G</td>
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<td></td>
<td>G</td>
</tr>
<tr>
<td><strong>Nurturing the acquired company</strong></td>
<td></td>
</tr>
<tr>
<td>Firm A</td>
<td>G</td>
</tr>
<tr>
<td>Firm B</td>
<td>G*</td>
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<td>Firm C</td>
<td>G*</td>
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<td>S</td>
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<tr>
<td><strong>Accumulate learning</strong></td>
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<tr>
<td>Firm A</td>
<td>G</td>
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<tr>
<td>Firm B</td>
<td>G*</td>
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<td>Firm C</td>
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<td>S</td>
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<tr>
<td><strong>Champion increased resource commitment</strong></td>
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<tr>
<td>Firm A</td>
<td>G</td>
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<tr>
<td>Firm B</td>
<td>G*</td>
</tr>
<tr>
<td>Firm C</td>
<td>G*</td>
</tr>
</tbody>
</table>

- **G**: Gaining
- **G***: Gaining and Loss
- **S**: Sensitizing
- **G**: Gaining
Appendix 2.3 stakeholder data value creation phase Absorption

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Decision Makers</th>
<th>Interface Management</th>
<th>Finance</th>
<th>Legal</th>
<th>HR</th>
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### Value Creation in Absorption

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### Appendix 3: Factor – Activity relations original data

#### Appendix 3.1 Factor data stage-setting phase

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## Appendix 3.2 Factor data value creation phase Preservation

### Contextual Factor

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### Value Creation in Preservation

**Continued Boundary protection (gate keeping)**

| Firm A | G | G | G | S | S |
| Firm B | G | G | G | S | S |
| Firm C | G | G | G | G | G |

**Nurturing the acquired company**

| Firm A | G | G | G | G | G |
| Firm B | S | S | G | G | G |
| Firm C | G | G | G | G | G |

**Accumulate learning**

| Firm A | G | G | G | G | G |
| Firm B | G | G | G | G | G |
| Firm C | S | S | S | S | S |

**Champion increased resource commitment**

| Firm A | G | G | G |
| Firm B | S | S | G |
| Firm C | G | G | G |
Appendix 3.3 Factor data value creation phase Absorption

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Value Creation in Absorption

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## Appendix 3.4 Factor data value creation phase Symbiosis

### Value Creation in Symbiosis

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