contributes significantly to the venture's continuing overall success. From this has developed a win–win relationship—Lotte gets excellent tenants and Fast Retailing gets the local brand recognition and top locations. The glue that binds the relationship together is trust, as a senior executive at Fast Retailing added, "We are open to discuss everything [with Lotte] and judge everything based on mutual trust ... we have been in a good relationship with each other for a long time. We had mutual understanding before launching the JV." It is a trust built over years of mutual respect and support.

This case highlights the importance of mutual trust in successful joint ventures. In the joint ventures analyzed, the ventures' successes relied on a win–win situation that can only be built upon a platform of mutual trust. Exploitative relationships may work for a period of time but ultimately break down when the relationships become too lopsided in terms of benefit. The key to mutual trust is deep partner knowledge and cultural understanding built on extensive and ongoing communication and expectation management. Face-to-face interactions only solidify trust and commitment and ensure communication accuracy.

7 Mergers and Acquisitions

Introduction

When in doubt, acquire. That seems to be the mantra for most internationalizers. Acquisitions are the cornerstone of any expansionist strategy. They do not, however, provide all the answers in every circumstance. There are situations where acquisitions are the appropriate vehicle for growth, but they come with their own inherent risks: picking the wrong target, management's time in sourcing and in post-acquisition implementation, to say nothing of purchase price and associated premium. Most research puts the chances of successful acquiring at roughly 50 percent with cross-border transactions being even lower. Yet, as will be seen, acquisition remains the entry mode of choice. Acquisition strategy, reasons for acquiring, and key success factors and issues will be discussed in this chapter as will the related research.

The reasons for pursuing acquisitions are similar to those of strategic alliances—fast entry into a market and a need for intimate market knowledge; the difference is the level of control being exercised by the parent company. In the case of acquisition, it is total. In those cases where less than full ownership is taken, or where the local jurisdiction requires an indigenous company to retain a minority shareholding of the operation, the position is that of a shareholding, discussed in Chapter 6.

Methods of expansion and reasons for acquiring

Survey participants were asked whether they considered other methods if they acquired in a region. Over 60 percent said they did not. When asked why they chose acquisition, they gave a variety of answers. Surprisingly, control didn't feature prominently especially in light of their comments regarding joint ventures; instead speed (23 percent) was the dominant factor. Several participants (18 percent) indicated that the opportunity of an excellent target presented itself and the transaction was opportunistic while 15 percent considered all options before deciding that acquisition was appropriate for that market. Twelve percent indicated that they wanted to acquire a significantly sized presence in that country and the only way to do that was through acquisition, while just under 10 percent wanted to acquire a specific resource and acquisition was the most direct route. Finally, 15 percent said they made

the acquisition because it was considered "transformational," greatly altering the footprint and scope of the organization in that region—examples include JBS' acquisition of Swift (see Case 9.2 of Chapter 9) and Cadbury Schweppes' acquisition of Adams from Pfizer (see Case 7.1). Critical for transformational acquisitions is speed—the ability to act quickly in securing the target before the competition. As Mr. Frank Rittgen, Global Head of M&A at Bayer added, "Time is never your friend in M&A deals. Make sure that you move first and are the front-runner in the process." This is never as true as in a transformational acquisition.

Transformational acquisitions deserve further analysis. Most large-scale acquisitions bring with them a high degree of divestment as regulators insist upon market-share levels that do not impede competition. Transformational acquisitions do not have the same degree of divestment as they are seen to geographically complement certain companies. This is the point. A large-scale acquisition may not be transformational to everyone—it is only so if the geographies are complementary. They do, however, often appeal to more than just one acquirer who prizes the markets in which that target operates. Thus while everyone is different, those companies are often sought by more than one suitor. As a result the price paid is rarely considered low. In acquiring the transformational target, one often hears that the acquisition has a defensive element to it—that by buying the target, the acquirer is proactively keeping a competitor from obtaining it. This was seen in the Adams acquisition by Cadbury Schweppes. Part of the reason for buying Adams was defensive—to keep Wrigley from gaining the brands and market share in such attractive markets—indeed it would have been transformational for them albeit to a lesser extent.

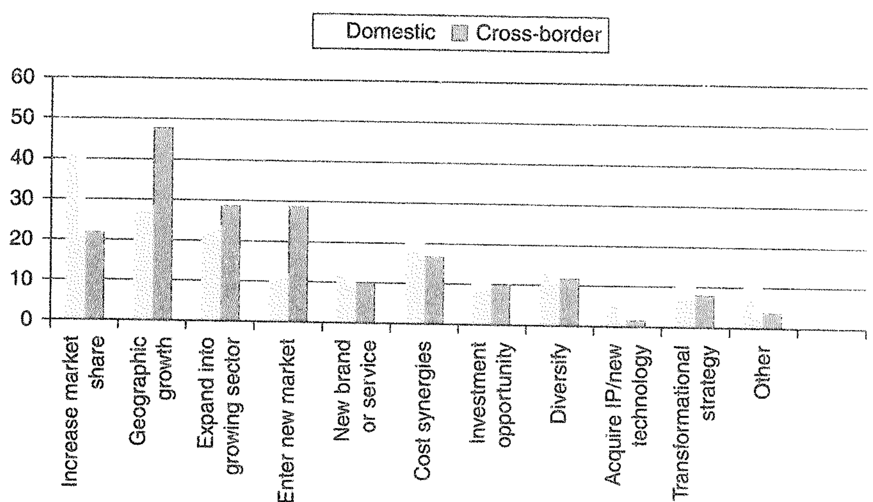
Research over the years has indicated a variety of reasons for acquisition. Acquiring resources whether it be new products, technology, brands, talented management, or natural resources is an increasingly common reason for acquisition, especially in certain industries such as pharmaceuticals, software, telecommunications, and electronics where smaller innovative firms act as the acquirer's research and development (Sikora, 2000; Ranft and Lord, 2002). Vertical integration is a reason for acquisition—where one business acquirers another complementary business either before or after the acquirers on the supply chain. Market entry is a common form of acquisition, and one that will be discussed extensively later, whereby an organization purchases an established entity in a new geography creating an instant market footprint. Following a client into a new market is a related form of market entry—consider it like landing in a new geography with a parachute. The merging together of like businesses can lead to economies of scale in addition to enhanced market share, both of which are reasons for acquisition. There are also less operational reasons for acquiring that include tax incentives, diversification, and competitive differentiation (Auerbach and Reishus, 1988; Ahern and Weston, 2007).

Recent research conducted by KPMG anonymously interviewed 162 acquirers and asked the reason for their latest large acquisition (transactions over $80 million in size); of those 110 were domestic acquisitions while 52 were cross-border. Respondents were allowed to choose more than one reason. The results are shown in Graph 7.1.

The results are logical. Those acquiring domestically are primarily building market share in an environment in which they already have a presence and achieving cost synergies through the overlap of operations. In addition, they are more likely to want to buy intellectual property or new technology to cross-sell to their existing customers. Cross-border acquirers are expanding into new markets where there is less opportunity for overlap and the greater likelihood of entering new markets and geographic growth.

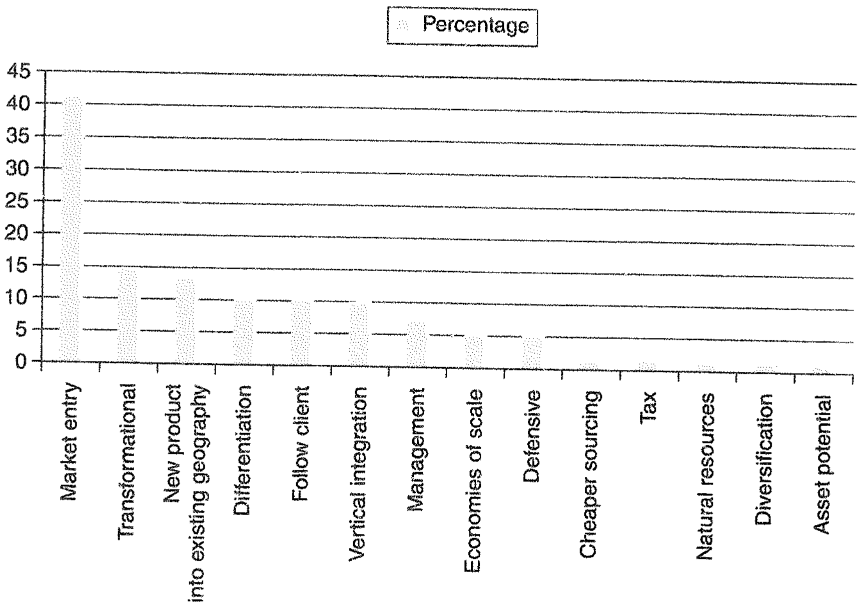
In recent years the reasons for acquiring have changed dramatically from cost synergy acquisitions to top-line growth initiatives. This research gives an explanation to why this is occurring and partially refutes it. The nature of acquisitions isn't changing. Domestic acquisitions are still consolidatory where organizations are building market share in related industries, and in doing so streamlining their operations and yielding cost-savings synergies. Cross-border acquisitions are top-line driven expanding market opportunities. By definition there is little to combine when entering a new market, thus cost-synergy overlap is less prevalent. While the nature of acquisition isn't changing, there is increased frequency of cross-border acquisition and, therefore, an increase in top-line growth acquisitions.

The participant survey results give a similar indication of why globalizers acquire. Almost all are cross-border acquisitions, so it is not surprising that their acquisition tends to mirror those of KPMG's cross-border acquirers. Survey participants were asked to speak about a recent acquisition and their reasons for buying it. The reasons given are listed in Graph 7.2.



Graph 7.1 **Reasons for acquiring, comparing domestic and cross-border acquisitions**

Source: KPMG survey of 162 companies (2012).



Graph 7.2 **Survey participants' reasons for acquiring**

Source: KPMG survey of 162 companies (2012).

The results were in some ways surprising. The role of defensive acquiring—that is, acquiring a target to ensure a competitor does not buy it—was more prominent than anticipated as was strategic differentiation. Cheaper sourcing played a lesser role than previously thought. What is clear is that globalizers are buying for top-line growth and to establish locations where they don't have substantial existing operations, making the achievement of economies of scale savings impossible. In almost 20 percent of cases, however, the acquirers did have a much smaller presence in the market in which they acquired and chose to merge their smaller existing operations into the larger and more established target. In none of these cases did the acquirer list economies of scale as a reason for undertaking these acquisitions. This will be covered in more detail later in the chapter.

Degree of integration

The next logical step from why one acquires is to understand how they are to achieve their acquisition objectives. The main driver of this is the degree to which one merges the operations together also known as the degree of integration. Previous research has found this to be one of the important initial decisions of any acquisition (Puranam, Singh, and Zollo, 2006). The degree of integration has been found to impact collaboration within the firm—the further one integrates the easier it is to share information and resources. The tension comes in that full integration is difficult, as "management teams focus their energies on the battle to maintain their positions, and the business suffers. This pattern is repeated all the way down the ranks" (Bower, 2001, p. 96). It often leads to the loss of key individuals and, with them their knowledge from the firm.

The initial step is understanding the role of acquisition in the organization's overall strategy. Obviously one hopes that all acquisitions are strategic in nature. Research has found this not to be the case and in fact as many as one-quarter of acquisitions have been found to be undertaken for the ego of the senior management in charge (Seth, Song, and Pettit, 2000). If one is acquiring for personal reasons and not with strategic intent, the degree of integration really doesn't matter as the act of purchasing the target achieves the personal objective. One participant agreed and commented, "We have a strategy, and it is about execution of the strategy rather than having an acquisition strategy. So firstly and most important thing with acquisition is we do not have an acquisition strategy. We have a strategy, and acquisitions may assist it. So it's very clear—it was about fulfilling a strategy not about an acquisition strategy in its own right."

In a previous book, I put forward a hypothesis that how far one integrates a target is inherently related to the reason for buying (Hubbard, 1999). I suggested that companies have five reasons for buying: financial, market entry, vertical integration, asset potential, market penetration, and economies of scale. In light of recent research, this list needs to be modified and clarified but still remains valid. The reasons will be discussed in turn.

Financial rationale/strategic differentiation

The current research findings of both the KPMG and this research surveys suggest a significant number of international organizations acquiring for what can be seen as predominately strategic and/or financial rationale. When describing an acquisition as strategic, again, one hopes that all acquisitions are strategic. This category, however, defines a strategic acquisition as one in which the acquisition is used to strategically change the organization either through diversification, differentiation, or defensive acquiring. In addition in a small number of cases targets were acquired for tax reasons or simply because they have spare cash to spend. Research has found tax reasons are rarely the primary reason for acquiring although it does feature as a minor reason for acquisition both in these cases and previous research (Ahern and Weston, 2007). Interestingly, strategic differentiation was especially prominent in Japanese companies with 75 percent of Japanese respondents indicating this was a major reason for acquiring the target; the other respondents were European acquirers with neither North American nor emerging market acquirers, indicating this featured in their reasoning as to why they were acquiring. Diversification did feature in emerging market acquirers as well as Japanese acquirers but not Anglo-Europeans. The degree of integration necessary for financial strategic acquisitions is really a moot point—the act of acquiring has triggered the successful accomplishment of that objective.

Thus the degree of integration is a redundant debate. This is not the case for most other types of acquisitions.

Geographic market entry

Market entry occurs when an acquirer enters a new market in which they don't have a significant presence. If they enter the new market in an unrelated industry it is also an asset potential acquisition (see further in the chapter). Geographic market entry was the most commonly given objective by the globalizers interviewed with over 42 percent indicating it was a significant reason for their acquisition. The KPMG research agrees with 48 percent of cross-border acquisitions occurring for the same reason. Interestingly this figure for domestic acquirers was only 29 percent in the KPMG findings. This supports other research that found market entry to be a key force in acquisition rationale (Bower, 2001; Hayward, 2002; Peltier, 2004; Staples, 2008). In light of the major push into the emerging markets and emerging globalizers moving into developed markets, this finding is not surprising.

Related to this was the transformational acquisition that featured heavily in 15 percent of acquisitions. The acquisitions significantly changed the globalizer's footprint enough for them to be considered unique in altering the organization's configuration. In all cases, the acquisition created wide-scale market entry opportunities for the acquirers mostly in complementary markets. They did, however, also have a degree of overlap on a global basis especially in terms of infrastructure and systems that did require integration and a reduction of duplication.

The degree of integration necessary for market entry is not clear-cut. By definition market entry indicates a lack of local presence—one is entering the market. But as mentioned previously, it was seen in a significant minority of cases that the acquirer had a small presence that was perceived as relatively insignificant in comparison to the target's size. In each of these cases, the acquirer's operations were merged into the target's more significant presence in what can be seen as a "reverse takeover." In the majority of cases, however, there was no existing presence to combine as it was a new geography. Thus the degree of integration necessary in order to achieve the acquisition objective remains quite diverse—in some cases, there is no integration while in others there is a small but significant merger of functions.

Market penetration

Market penetration occurs when one acquires to increase market share or in defensive acquisitions where the acquirer is trying to protect their market share. It continues to be primarily when one domestic organization buys a domestic target increasing local market share. With the advent of global organizations, the delineation between market penetration and market entry has blurred. If one asks Ford, Sony, BP, or Lafarge about market share, they talk about it in a global context with regional variations. Thus, market entry for these giants is also market penetration. Even in smaller global businesses, such as Arc and Nidec, this remains true. But there remains a difference between market penetration and market entry for domestic and regionally focused organizations. In these cases they are likely to have no presence whatsoever when they enter the foreign market. Because the vast majority of organizations will experience this differentiation, both categories remain.

With market penetration comes the duplication of functions. In most, but not all, cases the acquirer streamlines the operations reducing the overlap in at least some functions. In full integrations all functions are merged; in partial integrations the most commonly combined functions include back office, IT, HR, logistics/distribution, and customer support. What is important to remember is if there is a legitimate reason for keeping the businesses separate, the act of acquisition itself ensures the acquisition objectives are met. If combining the operations endangers the unique competencies that have made the target successful, it is worth conducting a risk assessment to understand if the cost-savings benefits of combining the operations outweigh the potential risks of doing so.

Vertical integration

Vertical integration was not a primary driver for acquisition as was top-line growth but it was the fifth most commonly given reason for acquiring by the survey participants. It involved technologically advanced manufacturing companies who were either trying to secure a scarce resource necessary for production or a distribution channel to desired markets. One, Lonrho, as seen in Case 7.2, involved the acquisition of a primary business with a subsequent series of bolt-on acquisitions and organic growth initiatives both upward and downward along the supply and distribution chains. The end result was a synergistic series of acquisitions that created significant value and laid the foundation for future organic growth and further related acquisitions.

Vertical integration acquisitions require some degree of integration in order to achieve the collaborative effect desired. By definition the organizational parts must collaborate in order to achieve the acquisition's objectives. How far they merge in order to do that is more flexible. It is unlikely that a full merger can take place—there are too many unrelated parts of the business to achieve that. But a partial or functional merger is possible where the back office or support functions are united while other functions remain independent. Conversely collaboration can be achieved via internal linkages that don't require a fuller merger assuming that the organization's internal communication functions are well honed.

Asset potential

In the previous model, asset potential was defined as being those acquisitions where the acquirer feels it can better manage the target's assets (Hubbard, 1999). This includes two approaches: (1) a venture capital-like role in which the acquirer's intent is to transform the target into a higher-performing entity usually through capital investment and financial rigor or (2) by utilizing the target's resource effectively in the wider organization. These resources can be new technologies, products, the management pool, research and development, and intellectual property. Acquiring unique or scarce resources is becoming an increasingly important motivation for acquisitions that would fall into the second category (Ranft and Lord, 2002). In the first scenario, the acquirer may invest in the target but the intent is to improve performance in many cases to sell it in a relatively short time frame. Venture capital purchases would fall into this category.

In the second case, resource collaboration, the intent differs. The acquirer needs some degree of cross-fertilization in order to transfer the sought-after resource to the wider organization. Therein lies the tension that will be repeated throughout the research—the acquirer must find a balance between ensuring organizational collaboration without integrating the target to the point that its unique resources are damaged or lost. This balancing act will be discussed later in the chapter as it is featured quite heavily in the participants' comments. For this model, because the acquirer's intent differs in these types of acquisitions, they are now broken into two distinct reasons for acquiring: asset potential and resource collaboration.

As seen in Diagram 7.1, the degree of integration chosen by the acquirer is dependent on their strategic objectives. If they are buying for economies of scale, then some form of merging of operations must occur in order for the strategic objective to be met. Conversely if a nonglobal enterprise is entering a new market, they will have no presence and therefore there is nothing to merge or integrate. If they do have a presence in that location, the reason changes to increasing their market share and the options open to them expand.

Two objectives and their corresponding degree of integration deserve mention. The first is asset potential. Venture capital firms and those enterprises acting like venture capitalists buy assets because they are undervalued or represent an opportunity to increase value usually for resale within five to seven years. While it is not common for venture capitalists to combine acquisitions with their existing operations, it does happen. In these cases the acquisition objectives become twofold (asset potential and economies of scale) and the degree of integration options expand. In most venture capital purchases, however, the target remains a stand-alone entity.

The second objective is market penetration. The act of buying the target secures the market share for the acquirer. Research has consistently found that combined market share declines following acquisition

☐ Unlikely ☐ Possible ▩ Likely

Degree of Integration Chosen

Reasons for Acquisition	Separate with Controls	Separate but Collaboration	Partial Integration	Total Integration
Financial/Strategic Synergies	Likely	Unlikely	Unlikely	Unlikely
Asset Potential	Likely	Unlikely	Unlikely	Unlikely
Market Entry	Possible	Likely	Unlikely	Unlikely
Vertical Integration	Unlikely	Likely	Likely	Unlikely
Resource Collaboration	Unlikely	Likely	Likely	Possible
Market Penetration	Possible	Possible	Possible	Likely
Economies of Scale	Unlikely	Unlikely	Likely	Likely

Diagram 7.1 **Relationship between the degree of integration chosen and reasons for acquiring**

Source: Hubbard (1999).

(Pesendorfer, 2003). With this in mind, it is worth considering whether or not full integration is necessary for the acquisition's secondary objectives to be met. There is duplication of cost but in those functions where the target's core competencies are in danger of being jeopardized by integration, the option of keeping them separate still exists while still achieving the transaction's market-share objectives. There are more options and flexibility than many acquirers realize. This is corroborated as a theme that ran throughout the survey participants' interviews. One commented, in hindsight, that they wished they had integrated further while five others said it would have been better to integrate less fully. This is discussed later in the chapter.

In my previous research, I found that acquisitions were occurring for economies of scale and market share as domestic markets consolidated. As such the skills needed were human resource related—merging and reorganizing departments, streamlining positions, training employees in new systems and processes. In this research, the acquisitions were divided. Yes, there were still some consolidatory acquisitions—almost all in the developed world—but the bulk were market entry that requires a different approach for successful integration. As will be seen later in the chapter, "using a lighter touch" during integration was a theme that ran throughout many acquisitions studied.

Factors for acquisition success and failure

The research surrounding acquisition success and failure is extensive and highlights just how unsuccessful growth via acquisition has been for most acquirers through the years. It has been measured in numerous ways:

- By share price movements vis-à-vis the acquirers' peer companies (Baldwin and Gorecki, 1990; Bleeke et al., 1993; Lubatkin, Srinivasan, and Merchant, 1997; Agrawal and Jaffe, 2000; Pesendorfer, 2003; Lasfer and Morzaria, 2004).
- By divestiture in companies pursuing a growth strategy (Porter, 1987).
- By market-share retention in merging companies (Mueller, 1985; Pesendorfer, 2003).
- By personal recollections of those involved in the transaction (Rostand, 1994; Hubbard, 1999; Schoenburg, 2006).

What is consistent about the findings is acquisitions fail to create significant value in the majority of cases. Returns following acquisition were at best neutral and at worst, negative (Agrawal and Jaffe, 2000). Two studies found that over 60 percent of acquisitions were "value destroying" in terms of stock market value (Lasfer and Morzaria, 2004; Stahl and Voight, 2008). Rostand found that 70 percent of acquisitions failed to meet their expected financial performance while 45 percent failed to meet their strategic objectives (1994). As discussed earlier, research has found that three-quarters of merging firms lost market share (Pesendorfer, 2003).

There are some companies that excel in acquisitions and enhance shareholder value when acquiring, but the vast majority at best either break even or destroy shareholder value (Lubatkin, Srinivasan, and Merchant, 1997; Brouthers, van Hastenburg, and van den Ven, 1998; Agrawal and Jaffe, 2000; Conn et al., 2001).

In response to the abysmal record in acquisition success, copious research has been conducted over the past 40 years in an attempt to understand why so few succeed. What becomes evident when reviewing the causes of acquisition failure is how complicated acquisitions are with dozens of variables—it is unlikely that only one factor can cause success or failure, but instead a host of interrelated factors contribute. To date, the most holistic findings giving insight into acquisition success and failure were conducted in 1999 by KPMG. Respondents were asked what activities were undertaken prior to their cross-border acquisition. The share prices of the 107 respondents were then analyzed to assess if the cross-border transaction had created value. Of those that did create value (approximately 17 percent), all had undertaken six key activities prior to the transaction—these can be broken into "hard" and "soft" activities. The "hard" activities were extensive pre-acquisition implementation planning, due diligence that went beyond just legal and financial, and rigorous synergy evaluation and analysis. The "soft" issues were communication especially with employees, senior top-team selection predeal, and a process in place for understanding and dealing with cultural issues early in the implementation. Interestingly only 10 percent of acquirers were able to create value without carrying out all six of these activities. While these six activities don't address events during implementation, they provide a good foundation for understanding acquisition success and failure. These findings support others who have the combination of some of these activities to be critical for acquisition success such as the findings that stakeholder communication, strategic focus, and understanding of synergies were key to acquisition success (Chen and Findlay, 2003; Stahl and Voight, 2008).

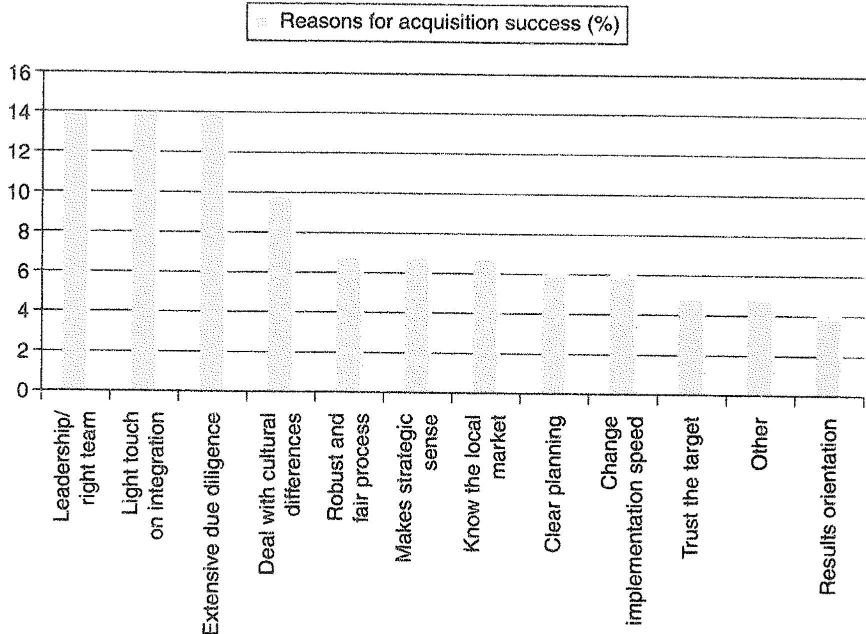
Traditionally causes for acquisition success and failure can be grouped into fit and process issues. Fit issues are those relational issues between the acquirer and target and include such things as strategic fit, cultural fit, organizational fit, industrial relatedness between the two entities, organizational size, and previous acquisition experience. They are unique to each acquirer and target, and just like synergies their relationship differs for each transaction. Process issues are those surrounding the implementation of the target by the acquirer. It includes the tone of negotiations, pre-acquisition planning, due diligence, price paid, communication, deal implementation, and HR issues during the implementation. Each of these areas has been seen to contribute to acquisition success and failure.

When the survey participants were asked about what three factors lead to their acquisition successes, there were very few fit issues. In reality most of their successes came from activities over which they had a significant amount of control and could be proactively managed (see Graph 7.3). The participants' answers, instead, mirrored more a combination of "hard" and "soft" variables that support the KPMG survey findings of 1999.

"Hard" activities

The hard activities of robust synergy evaluation, holistic due diligence, and pre-acquisition planning all featured heavily in the survey participants' remarks. These activities all verify that the transaction makes strategic sense. It seems almost a given that one wouldn't undertake a transaction without this, but it happens more than one might think. As discussed previously, acquisitions occur for nonstrategic reasons.

Having a clear strategic vision was one of the top five answers given as to the acquisition's success. One participant said, "Number One was a clear objective and a joint objective as well. So there was no discrepancy as to what we want to achieve as an organization and how the organization that we purchased was able to help us do that. So very quickly we aligned that group objective with part of the business that we acquired so I think that was key." The logic and rationale for the transaction was seen to be the foundation on which a successful transaction can take place; without it the chances of failure were seen to increase quite dramatically. Related to this were key stakeholders who also saw the deal's strategic sense. Two participants commented that



Graph 7.3 **Reasons given by survey participants for acquisition success**

Source: KPMG survey of 162 companies (2012).

having key clients see the strategic rationale and embrace it was critical to their acquisition's success; and as one was a service provider, this was paramount. Another participant commented that having a compelling story to tell key employees made "selling" the acquisition much easier, "If key employees can get excited about the acquisition and their future in the combined organization, they are more likely to stay and be involved than leave." These last two points demonstrate the variables' interconnectedness—without strong stakeholder communication, neither clients nor employees would understand the transaction's strategic logic.

Related to this was the strategic opportunity of the "orphan syndrome." The move toward greater organizational specialization ("globalfocussing") has meant that unrelated divisions are being increasingly marginalized, often starved of resources and senior management attention—hence the term "orphan syndrome." In many cases those divisions are being sold in order for their former owners to concentrate on their core businesses. This has created an opportunity for acquirers to pick up potentially highly complementary targets and led to a "re-organization of industrial assets and production structures on the global scale" (Kang and Johansson, 2000, p. 34).

"Orphan syndrome" was experienced by 15 percent of participants, which was seen as a tremendous opportunity by those interviewed especially in terms of strategic fit and a very positive communication story for stakeholders. In those cases, the target stakeholders were generally in favor of the acquisition due to the transaction's strategic sense, knowing that with a new "home" the target was more likely to receive needed resources, including management attention. One participant said:

> Again, I'm trying to generalize, a really successful acquisition is where you have a small group starved of resources, in need of resources. And in a lot of cases they talk about innovation, where you're buying innovation and often that the bigger company, the buyer, will provide the resources but really let them run as a stand-alone in order to retain key staff, because they had the knowledge on the innovation.

An example of the "orphan syndrome" is seen in Lafarge's acquisition of their Indian cement operations (Case 7.3) and this supports previous research that found strategic fit to be critical for acquisition success (Ellis and Styles, 2007). In half of the cases, these orphans were large enough to serve as transformational acquisitions as well.

Pre-acquisition planning

Pre-acquisition planning was seen by the survey participants as a key factor for acquisition success. One acquirer attributed their recent acquisition's success to excellent planning, saying, "We had a very detailed integration and game plan with regard to handling the cost, raw material sources, and supply chains—it clearly paid off." Poor acquisition planning impacts the effectiveness of early stakeholder communication as it limits the information available for discussion. In addition, planning is seen as an integral part of synergy evaluation and due diligence—after all without having detailed plans, one cannot assess related resources during due diligence. Understanding the vision and plan going forward is also fundamental to employee retention and gaining "acceptance" and, in some cases, enthusiasm from target employees. With lower levels of integration being utilized and a greater desire for employee retention, this aspect rises in importance. One participant commented, "Experiences teaches you the importance of doing your due diligence well, understanding what you're buying, understanding the target, understanding the prospects."

The KPMG research on pre-acquisition planning showed that cross-border acquirers varied quite widely on the amount of planning undertaken. Only 28 percent, when asked how much planning they did, considered that they did "a great deal." Thirty percent said they did a "reasonable amount," while 18 percent did "just a little" planning, and 24 percent did no planning at all. It is worrying when almost one-quarter of overseas acquirers fail to plan at all and almost 40 percent do little to no planning. The survey participants interviewed for this research were clear that while a robust strategy was the foundation of a successful acquisition, planning and synergy evaluation were the tools with which success was built.

There are several key decisions that acquirers need to address prior to the acquisition during their pre-acquisition planning phase:

- ▷ Why are you buying the target—that is, what are the key competencies you are trying to protect and utilize? How are you going to protect those key resources?
- ▷ How far are you going to integrate the target into your existing operation? Does this allow you to maximize the target's key resources?
- ▷ How fast are you going to implement any changes?
- ▷ Are you planning on retaining key target managers? If not, do they have a role prior to their departure? How will you dismiss them?
- ▷ If there is employee overlap, how are you going to decide who stays and who goes? How will the top-team configuration look to the other stakeholders?
- ▷ Are you going to integrate systems? Which employees will be affected? Are there employees who are key to this process? If so, are you confident of their willingness to remain with the organization to see through the implementation's completion?
- ▷ Do you have knowledge within the firm to help with the implementation especially if it is occurring in a location that is distinctly foreign from your traditional mode of operations?

The answers to these questions provide the substance of any Day One communication to stakeholders. If they are not determined prior to completion, it is impossible to communicate meaningfully. The acquirer has but 48 hours in which to make an impression on stakeholders after which time someone else has made that impression. It is too critical an opportunity to miss due to a lack of acquisition planning or ineffective communication.

Holistic due diligence and understanding what you are buying

Holistic due diligence is a fancy way of saying you understand what you are buying. It comes from extensive research and a deep understanding of the target and the market in which it operates. This is featured prominently in the survey findings with extensive due diligence being the fourth most widely cited response. In addition, understanding the target's market also featured as one of the top ten responses.

Having a deep understanding of the local market is a theme that runs through the entire research—the ability to truly understand the market, its culture, and idiosyncrasies was seen as paramount for success regardless of entry mode. This knowledge cannot come from superficial visits in and out of the region—it requires a presence on the ground for a considerable period of time. Hence it isn't surprising that 15 percent of acquirers had a small presence in the local market prior to their acquisition either directly or through a sister division. They learned about the local markets, and based on that information they decided which option of expansion to choose and, ultimately, which partner to pursue. Interestingly this reason for success hasn't been mentioned in previous research, which is surprising considering how heavily it is featured here. It may be due to the increasingly diverse markets into which companies are acquiring, meaning there is a greater degree of "foreignness" for acquirers in those geographies. One participant commented, "The benefit is really just getting more experience in those markets to become accustomed to doing business in the first place and getting a little bit more of a local feel in those relationships."

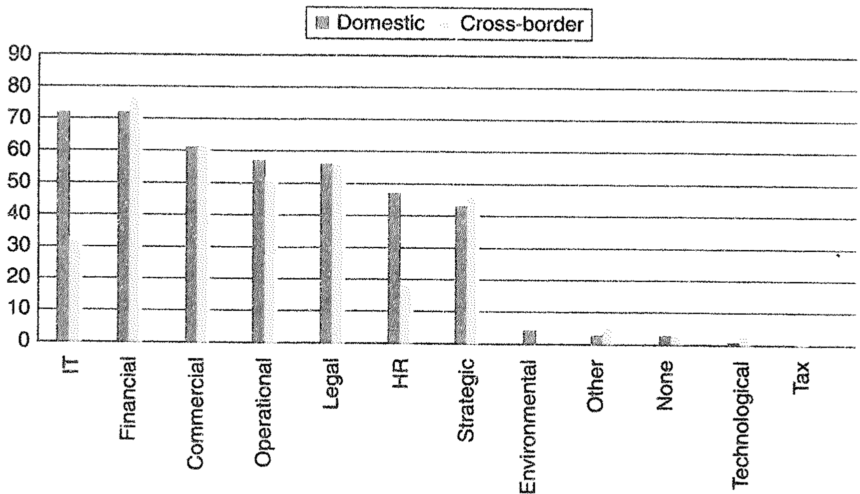
Understanding the target well beyond its financial and legal structure was also seen as being critical for success; it included what the target's core strengths were and how this could benefit the enlarged organization. One survey participant commented:

> It took three years of relationship building and understanding the cultural differences and the market for us to get a deal done and for them to appreciate us as a partner. My approach is to go in and see if there is a commercial or strategic relationship for us to have rather than go straight into having an acquisition talk. No question we want the key individuals to stay and this collaborative approach really helps keep key players in the business to stay.

The recent research undertaken by KPMG in which they surveyed 162 organizations found a snapshot of what due diligence companies undertake. When asked what due diligence was undertaken, the results were similar for domestic and cross-border acquisitions with the exception of IT and HR. Domestic acquirers conducted IT due diligence in 72 percent of cases compared to only 33 percent of cross-border transactions. Similarly, domestic acquirers conducted HR due diligence in almost half of their acquisitions (47 percent) while only 19 percent of cross-border acquirers did. This goes some way in explaining a few of the softer issue discrepancies uncovered in this research (see Graph 7.4).

Interestingly, very little environmental due diligence was conducted in either domestic or cross-border acquisition. As a rule of thumb, any acquisition in an emerging market economy or in certain high-risk industries such as chemicals or manufacturing where one is assuming liability should include an environmental due diligence—the cost relative to the potential risk is negligible. In addition, while commercial due diligence is not common throughout parts of the emerging world, it is critical in ensuring that order books and client relationships are legitimate. One participant gave this advice:

> So, in markets where you are unfamiliar, it's really important that you get to know who the end use customers are and what the communication is and what the relationship is. Very, very important. The other piece of advice I'd give is that if you start to get pushed back because the seller says, "Well, I don't want you talking to my customers," I understand that. The response to it is, "That's fine, but if we're going to close this business in the next two or three weeks I need



Graph 7.4 **Types of due diligence conducted before acquisition**

Source: KPMG survey of 162 companies (2012).

> to be able to speak to the customers and be able to understand them. If I can't, then there must be a reason why you don't want me to talk to them, which is probably not good news.

Thus, if you are acquiring for certain competencies or resources, due diligence efforts should be concentrated around those areas.

Three participants suggested a key to their successes in acquiring in emerging markets was to truly understand what the shareholder's aspirations were. In these cases, as many in the emerging world, the targets were privately held and therefore winning over those shareholders to the vision and value of the combined organization was seen as critical. In all three cases, the participants spoke of the owner's paternalistic nature and desire to see their business go to a "good home" with a compelling strategic fit and platform for growth and opportunities for management to thrive in the enlarged group.

In the first example, the acquirer repeatedly tried to understand the shareholder's objectives throughout the sale process. In most cases he found it revolved around management fit for the future. He elaborated:

> You cannot underestimate doing your homework on the shareholders—understanding their individual desires on why they want to sell and find new home for their company is absolutely critical. Looking at the history of shareholder investment, what else they invest in, and their personal motivations helps us be informed and get better deals done. We deal a lot with founders that own 70 percent of the business or more. Ninety percent of the time the motivations on selling are more paternalistic where employees are protected and the business grows. So our emphasis in due diligence is really about talent assessment for target employees. Sellers look for management security, and we can't give them that; I don't have a plan just for those employees—it depends on the employees and their dreams and what they want. It is about growing for the future; bankers don't get it but owners do.

The participant estimated that this ability to demonstrate consistent positive behavior and continued growth was worth between 10 and 15 percent of the bid value in goodwill.

In another example, the acquirer was willing to wait until the owner agreed to relinquish control. They are still waiting but keeping the channels of communication open until such time as the target becomes available—either to do a joint venture or sell the business outright:

> We talk to potential targets all the time—we know who the right ones are for us. We keep the channels of communication open. It can be very difficult for these people to sell their businesses. They [the businesses] often have their name, their family may have owned it for years, they may still work in it. So we wait and talk, and someday we convince them that we are the right owner at the right price.

Synergy evaluation

Synergistic benefit is unique to every business combination—what is valued by one acquirer is not necessarily by another. Overlaps and abilities to generate economies of scale will differ, as will the organization's relative strengths and weaknesses, thereby making every synergy evaluation also unique. Synergies can be broken into operational synergies and soft synergies. Operational synergies are cost reduction based and achieved by removing duplication in terms of people and systems. Combining IT systems, back-office functions, and overlapping manufacturing sites and departments such as marketing all yield tangible results that are easily quantifiable. Yet most studies undertaken to date on synergy gains indicate that operational synergies are rarely realized to their full extent even in domestic mergers that traditionally have been considered to have a higher likelihood of success (Amel et al., 2004). As Lanine and Vennet suggest, "the potential gains from consolidating branches, staff, computer systems and other operations may have been offset by managerial inefficiencies or problems integrating systems" (2007, p. 289).

Soft synergies are less easily measured and include intra-firm collaboration, innovation, and resource sharing, and because there is no starting cost base they are more difficult to measure. They are even harder to achieve in cases of low degrees of integration especially with the added complication of differences in culture, geography, and distance, hindering cross-firm collaboration. Yet these synergies were the most sought after by the survey participants. One survey participant commented:

> I think it really does go to your strategy if you're acquiring a mature business then you're looking to get cost synergies. We are usually always acquiring innovative

> growth businesses where you need to make further investments and your goal is to drive revenue growth, so it's really our philosophy. We don't want to acquire the past. We want to create the future.

Fifty-eight percent of survey participants said that top-line synergies were critical to their acquisition strategy at the moment. Fourteen percent indicated they were important but not critical. Fifteen percent indicated they acquired for both top line and cost savings while another 13 percent said each acquisition differed. Several participants acknowledged how difficult it was to achieve and measure revenue-generating synergies. One participant commented:

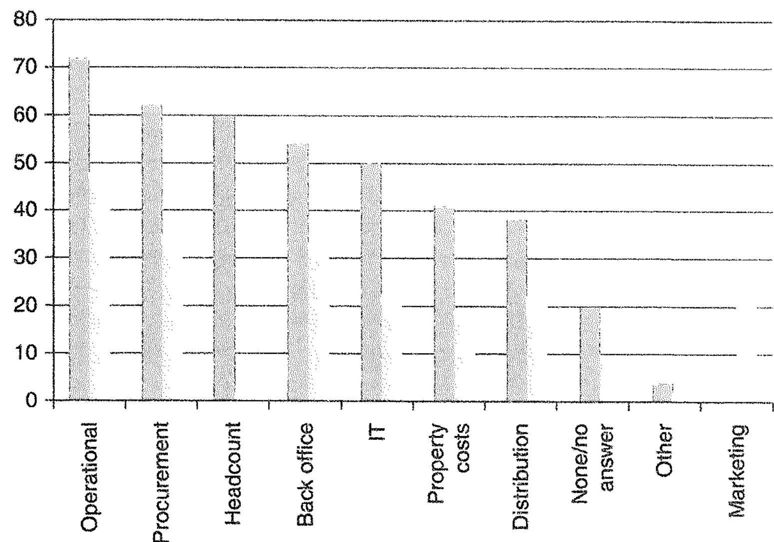
> Ninety percent of the acquisitions we do are about growth acceleration rather than cost savings—very few to eliminate cost. It is all about revenue growth; a lot of instances we buy businesses are similar and can rationalize cost saving but not at the cost of personnel and losing staff. It is about opportunities.

Another participant put acquisition and cost savings into the broader context of strategy, explaining:

> You always ever get about maximum three-quarters of what you thought you might get in cost savings and there'll always be a reason why you didn't quite achieve all the savings, by and large. The top-line piece is very important; if you haven't bought the business for some strategic value, I don't think you should buy it at all, because it's got to be adding something to your business. Now, obviously, if you end up justifying the price on costs to a large extent, that's absolutely fine but actually, you know, what really did you buy it for? It's very unexciting; it sounds like you've given up on your business, if you buy something just to save cost and that's a bit old fashioned as well but there must be a way to make two and two equal five or why do it?

Intra-firm collaboration is increasingly seen as fundamental to growing the top line—and creating a major shift in global acquiring—to leverage relationships, knowledge, innovation, and key skills across global operations. Examples of this include buying new products and technology to sell through existing channels of distribution and acquiring new markets in which to funnel product. One participant commented:

> The smaller acquisitions now usually are bought because they have a particular market niche or have a particular technology that we can fold into our business. The trend today is much more about buying companies to have technologies that can feed into our distribution channels if you've got marketplace already. If you go back ten years, then we may have been more of a consolidator to increase our market share. But today we're not ready to go down that path; we're looking for growing markets in which case looking for technologies that we can distribute or, maybe, get ourselves a position from a geographical perspective.



Graph 7.5 **Comparison of synergies sought between domestic and cross-border acquisitions**

Source: KPMG survey of 162 companies (2012).

KPMG's recent research asked their 162 respondents about their latest acquisition and what synergies were being sought. The answers differed quite dramatically for domestic and cross-border acquirers (see Graph 7.5).

There is clearly a greater emphasis on cost-savings consolidation in terms of headcount reduction and functional rationalization in domestic acquisitions; conversely cross-border transactions concentrated on top-line synergies such as marketing. Cross-border acquisition is about market growth whereas domestic acquisition is about market consolidation.

"Soft" activities

Process for addressing cultural differences

Culture is defined as "the valued beliefs and assumptions that guide an organization's practices" (Schweiger and Goulet, 2005, p. 1479). Culture conflict resulting from a poorly executed acquisition implementation has been found to account for 25–30 percent drop in performance (Walter, 1985). Numerous other studies supporting the critical nature of culture fit have been conducted over the years indicating that a cultural mismatch is damaging to acquisition success (Schmidt, 1999; Applebaum and Gandell, 2003; Weber and Camerer, 2003). In fact, "the most damaging obstacles

to a successful partnership are not created by geographic differences or languages but by differences in organizational culture" (Badrtalei and Bates, 2007, p. 303).

My doctoral research focused on five acquisition case studies. Of the five acquisitions, two were very successful, one was satisfactory but could have been better, and two failed to meet their objectives. In four of the five cases, culture played a significant role. In one of the successful cases, the cultures were vastly different but the acquirer managed stakeholder expectations sufficiently and proactively overcame the differences. Ironically, one of the least successful acquisitions studied was between two culturally compatible organizations whose fate was sealed by a poor implementation process rather than cultural misalignment. The issue wasn't that the cultures were different—it was *how* the acquirer dealt with the cultural differences that was a greater indicator of acquisition success (Hubbard and Purcell, 2001). This position is supported by an increasing body of work that find cultural differences can be overcome but need to be proactively addressed throughout the acquisition process (Applebaum and Gandell, 2003; Rottig, 2009).

The degree of integration chosen by the acquirer is also relevant for cultural differences. In those cases where there is full merger, cultural differences become increasingly pronounced as more employees are exposed to the differences. Conversely, in those cases of lower integration, only a handful of senior employees and those who collaborate within the wider firm notice the differences. This can be illustrated in the next diagram (see Diagram 7.2). In reality, there are not four distinct boxes but a continuum in which the degree of integration interplays with cultural differences to give a host of variations along the spectrum.

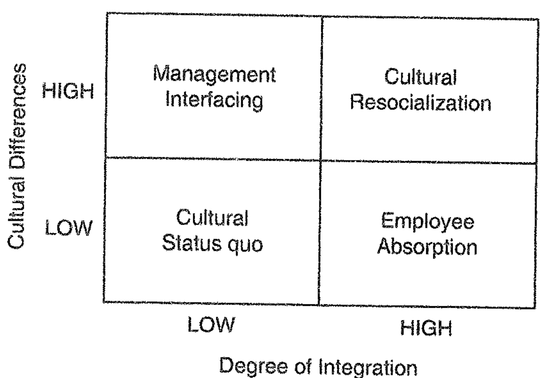


Diagram 7.2 **Relationship between organizational culture and the degree of integration**

Source: Hubbard (1999).

In mergers, where there is a high degree of integration, organizations are forced to combine both target and acquiring employees often introducing new systems and processes to at least half if not all employees. Departments are merged—meaning new colleagues, bosses, systems, and processes that impact the entire organization. In addition, if cultural differences are high, employees have to learn new ways to operate within the organization as culture is the manifestation of the organization's systems and processes hence this is called *cultural resocialization*. During this time, productivity drops as employees relearn how to perform their jobs (or take on new ones) in light of the organizational changes. In those extremely rare cases of minimal cultural differences between merger partners, the process is really one of *employee absorption* where employees find the transition easier perhaps due to similar working arrangements or IT systems. This situation is highly unusual—the norm for full mergers is high employee disruption to varying degrees.

In cases of lower degrees of integration, the vast majority of employees has little interaction with the overall organization and they continue in their positions seeing little change. If cultural differences are less obvious, there remains *cultural status quo*. In those cases where there is low integration but a higher degree of cultural difference, there is the need for *management interfacing*. Those employees who potentially experience changes depending on the cultural differences are those who collaborate or have dealings with the wider organization. These could include senior management, some middle management, and those employees with whom horizontal collaboration is critical. Increasingly collaboration is seen as fundamental for the global enterprise's success as synergies across geographic boundaries are sought in terms of research and development, innovation, and market and brand management. Those employees who are also impacted by a radical shift in culture falling into this category will need to retrain in the organization's systems and processes that are new to them. Some acquirers who understand they are culturally different provide those affected employees with a corporate cultural "translator" to facilitate interfaces.

Full mergers bring with them other complications in terms of cultural understanding. While they potentially bring about the greatest cost savings through economies of scale, they also cause the greatest disruption and risk of failure. Proactive cultural management becomes critical. One participant described the merger and absorption of a major division into their existing division, "We really organized the operation, introduced new systems. When doing that you impact both sides, your own employees and the operating units as well as the target. It was difficult."

Successful tools for helping employees through cultural differences are numerous but difficult to truly use effectively (Schweiger and Goulet, 2005). Culture audits give a starting point from which to understand both organizations' cultures in which key differences in processes, systems, and ways of working are assessed. Audits can increase cultural understanding between the companies and mitigate misunderstandings that naturally arise

in culturally different firms. In addition, as changes in systems and processes are made, affected employees should be fully trained in light of the changes and audit findings—it is unrealistic to expect any employee to fully understand different systems and processes without sufficient training. It naturally leads to a reduction in productivity often during which time those employees are being assessed for positions. It is easy to forget this and mistakenly assume those employees are less capable—in most cases these employees are the target's as their business is integrated into the larger acquirer. As seen in joint ventures, cultural-awareness training for all employees who come in contact with target employees gives some insight into differences that without training may cause misunderstanding or offense. All of the aforementioned activities are designed to increase awareness and understanding of the target and its environment—increasing intra-cultural learning or "not only *how* the organization functions but *why* it functions the way it does" (Schweiger and Goulet, 2005, p. 1479). Fundamental to all of the tools discussed previously is effective two-way open communication.

Communicate to stakeholders

Communication can be defined as "not only formal verbal and written communication but also informal communication, actions, gestures, and feedback; even no communication is in itself, communication" (Hubbard, 1999, p. 94); it incorporates communication to both internal and external stakeholders. Communication has been seen to be critical for acquisition success for a number of years (Piekkari et al., 2005; Lodorfos and Boateng, 2006; Stahl and Voight, 2008). Yet despite its importance, communication often appears to be neglected during acquisition. This could be in part due to the inherently secretive nature of acquisition negotiation and its deceptively complex nature.

Communication is both controlled by the organization and through informal channels such as third parties and informal networks. It isn't just formal communication that leads to effective communication after acquisition but a combination of formal and informal channels as employees seek to reduce the uncertainty surrounding the transaction (Cartwright and Schoenberg, 2006). Timely, consistent, honest, and believable communication via formal channels leads to more consistent informal messages and increases communication robustness. In time, these lead to an increased perception of trustworthiness, honesty, and respect for management leadership (Hubbard and Purcell, 2001).

The choice of corporate language can also send signals and create a power situation of one group of employees over another. If the corporate language is not that of the target, those employees who deal at an organizational level are at a distinct disadvantage vis-à-vis their acquiring counterparts. The situation may also favor those target employees who are fluent in that language simply because of linguistics and not managerial capabilities. This was seen as an issue with one survey participant's Chinese acquisition where English-speaking managers were promoted simply because they spoke the company language of English to the company's ultimate detriment.

The richness of communication has also been seen as a key facilitator in acquisitions especially when cross-collaboration between the target and rest of the acquiring organization is important (Ranft and Lord, 2002). In those cases e-mail and other impersonal communication techniques are less effective and more open to misinterpretation than face-to-face interactions where common ground can be shared and a positive climate can develop. The potential for misunderstanding is heightened when at least one of the parties is communicating in a language other than their native tongue. And beware of Scandinavians and the Dutch speaking English—their English is often so good that it is easily forgotten that it's not their native language or culture and misunderstandings can arise. Thus, in cases of collaboration, face-to-face get-togethers, joint target/acquirer working groups and project teams are encouraged; informal social gatherings, trips to each others' locations, and in-depth dialogue should be promoted to facilitate trust and mutual understanding as the formal word can be supplemented by body language and other indicators of intent (ibid.).

Communication must also be consistent internally and externally. There is potentially an inherent tension of wanting to speak positively to the markets following acquisition with messages that may cause concern internally or with customers—for example, when discussing economy of scale cost reductions. Customers generally are not excited about cost-savings synergies for fear that their levels of service and support may drop; managing their expectations in light of changes may be necessary. Several participants indicated that having the transaction seen positively in the customers' eyes was critical to their undertaking the transaction in the first place. One participant said:

> Absolutely ensure that in the eyes of your customers it will be seen as a good thing. One of the things that we'd been getting within our businesses is absolute customer focus in terms of what the customer gets in choices and therefore we've got to understand them, being very clear as to what they want and how we are going to accomplish this. So if your perception is that actually an acquisition will help with what we sell our customers, be very very very clear about that and ask them.

The key to effective communication is a consistent, believable message to all stakeholders. If inaccurate, stakeholders are unlikely to believe that source of communication in the future, choosing instead to rely on sources that proved to be more accurate in the past. This undermines future communication and increases the likelihood of misunderstandings and distrust (Lodorfos and Boateng, 2006).

Surprisingly communication wasn't considered a major issue in cross-border acquisitions according to the KPMG survey nor with this study's participants. It is, however, not to be underestimated for its role in ensuring

the professional delivery of several other key factors such as presenting the acquisition plan and objectives, addressing cultural issues and intra-leadership. For example, an acquirer may have undertaken the most robust planning process, but if it is not communicated effectively the impact is lost. In addition, many cultural misconceptions can be mitigated with consistent and two-directional communication systems.

Top-team selection

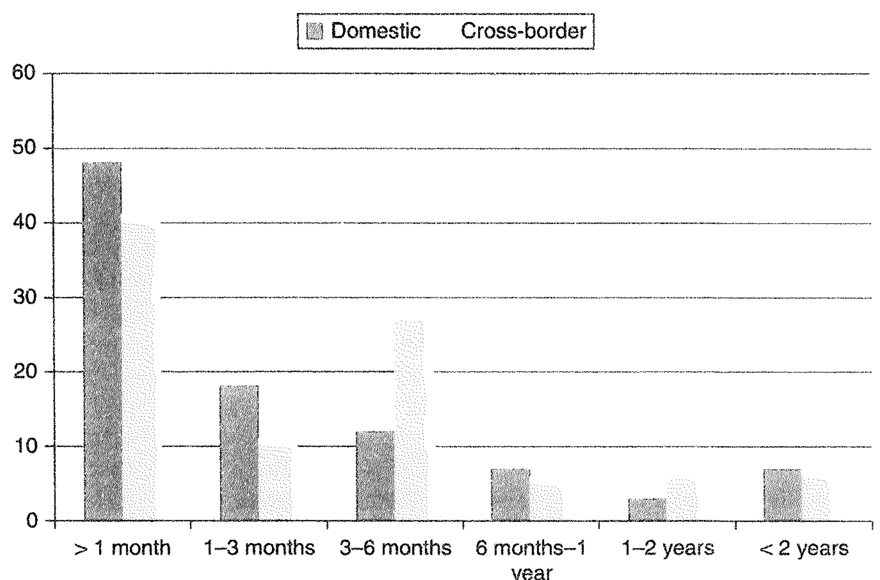
Employee retention and leadership has been found to be a cornerstone of acquisition success especially in those acquisitions where target knowledge retention is critical (Ranft and Lord, 2002; Nemanich and Keller, 2007). There are countless stories of failed acquisitions where employees with key knowledge left the firm to its detriment—for example, two-thirds of Chrysler senior executives left in the year following its "merger" with Daimler Benz and created a void in emerging market expertise that was never filled (Badrtalei and Bates, 2007). It is not only senior management but also middle managers who possess firm knowledge and are vulnerable to exit. Employee exodus has been linked to acquirer's employees' attitude during the implementation process. In those cases where the "conqueror's syndrome" was exhibited ("we bought you, so naturally we are better than you are"), vanquished employees were more likely to leave. It is worth noting in those cases where the acquirer's smaller existing business was subsumed by the larger target that the vanquished employees can be the acquirer's. This feeling of reverse takeover can lead to feelings of betrayal by those employees if not managed proactively, only making the situation worse.

Getting the top team right was seen as one of the top reasons for acquisition success by survey participants. This did not necessarily mean just retaining the right individuals in the target after acquisition but also ensuring that the acquirer's employees who were actively involved were a good fit and empathetic leaders. Creating a compelling and exciting joint vision for the combined organization, being fair with all employees, and encouraging and motivating employees to get emotionally involved with the new organization were all seen as critical to success. Research has found that leaders who do this create a climate of great acquisition acceptance, higher job satisfaction, and performance (Nemanich and Keller, 2007). Fundamental to this are excellent communication skills as well as the ability to operate in multicultural environments. As will be seen further, many participants kept a lower degree of integration with their targets once acquired wanting to retain senior management target employees. In many cases, the relationship was very hands off; therefore, ensuring the right employees were in position was important to the target's continuing success. One participant commented, "So much of this relies on the management in place. You need to do your homework and make sure the right person is running the show."

Related to this, "trusting the target" was also a top ten response by those participating in the survey. One participant commented, "They [acquisitions] take an awful lot of trust and so if time had been spent listening rather than judging each other at the beginning, we would've gone faster." Conversely, another participant also warned of trusting the target too readily without built-in controls and systems.

There are several techniques that can be used to ensure target management are in line with acquirer expectations. One is to make sure senior target employees have a clear understanding of expected behaviors and systems within the newly enlarged company. An acquiring employee "point man" or contact can be used to ensure the target management has access to someone who can help them learn the new rules and procedures. Secondly, extensive training and "rich communication" can be used to ensure senior target management understands the new owner and its expectations. Thirdly, a management audit can shed light on those valuable employees as well as those up-and-coming middle managers. This also aids in succession planning that is more critical when acquiring in high-growth geographies experiencing a high turnover of senior and middle managers. Finally, a thorough and fair implementation process is perhaps the best indicator of professionalism going forward and serves to retain good employees. Once the management structure is in place and objectives agreed, the general view of survey participants is to trust the target to do their job properly and not second guess them or meddle in their operations as long as they perform to standard.

The time it took to secure target managers into functional head positions differed for domestic and cross-border acquisitions according to the recent



Graph 7.6 **Time necessary to get in place middle managers and above into managerial positions**

Source: KPMG survey of 162 companies (2012).

KPMG survey (see Graph 7.6). It took 28 percent of cross-border acquirers between three and six months to get in place senior management to a functional level compared to 12 percent of domestic acquirers. It took 14 percent of cross-border acquirers over one year to get senior employees in place. In "overheated" markets where senior managers are able to change jobs quickly due to increased competition, most simply won't stay during a period of such high uncertainty.

The same KPMG study supports this hypothesis. When asked which were the biggest HR challenges of the acquisition, employee retention was given as the second most difficult "people issue" only behind managing cultural differences; it was the most given response for domestic acquisitions.

One way seen to retain key target employees was to institute an earnout agreement whereby their payout was linked to the target's ongoing success. Earnout agreements are quite contentious especially as there are so many variables that can impact a firm's ongoing success especially after being acquired. Thus, the earnout can miss the mark in terms of an appropriate payout. But for those firms who use earnouts regularly, the ability to judge purchase price and earnouts improves. One executive whose company regularly uses earnouts said:

> More recently we bought [a business] in Mozambique, which has also got an earnout formula in it. And after a year and a half we paid almost exactly what we thought we'd pay. It teaches you the importance of doing your due diligence well, understanding what you're buying, understanding the target, understanding the prospects. Where I don't necessarily agree with the earnouts is that it can drive suboptimal behavior by management. Short-termism. They say, "I won't employ those extra four people to grow long-term sales because they'll just count against my earnout." Also, if he happens to be doing generally better than his earnout, [he says], "I'll hold that back for next year to make sure I make next year's earnout as well." You have to design the mechanism to try and compensate for every up and down and wrinkle. That's not easy. I think it works quite well more as a retention mechanism though.

Process issues in acquisition success

In addition to the six areas highlighted before, the implementation process has been found to be the biggest indicator of acquisition success and failure. There are countless cases of strategically sound transactions that have failed due to faulty implementation (Bower, 2001; Puranam, Singh, and Zollo, 2006). Issues that are seen to be helpful in promoting a successful implementation process are "using a light touch," partnering, and centralized knowledge units.

The survey participants agree. Having a robust and fair implementation process was seen to be critical to success. Implementation rigor is seen to positively impact target employees in terms of respect and trust for the acquirer's leadership but only if the process is seen as fair. It is in the acquirer's best interest to undertake a fair process in which the most practical systems and best individuals are chosen. One participant outlined their HR selection process:

> We had a lot of time to plan the integration and used this time wisely so that they could move quickly. There was a lot of overlap in Europe, which meant that many management positions would be competitive. We recognized this and gave everyone a chance to apply for their positions. This gave them not only the best people, but demonstrated to the entire new group that they were serious about integrating. We also decided to put its integration coordination management outside of Paris, which was the main headquarters for the target's business. This allowed further integration and sent clear signals to the target management regarding our seriousness about integrating.

"Using a light touch"

The speed of implementation and depth of integration were two aspects that saw polar opposite responses from the survey participants. In roughly one-half of cases studied, operations were merged together more fully. In all but two of the cases where a larger target was acquired and merged into an acquirer's existing operation, the acquirer's team was merged into the target, not the other way around. The view taken was this was more likely to preserve the benefits the target brought. A greater appreciation for the target's strengths was seen in this research than in previous research. One participant who merged their smaller unit into the market-leading target commented:

> We bought in a bunch of people who think differently, who act differently, and a business that makes money differently than the bulk of the rest of the group. And the success here has been in ensuring that we allowed that culture to continue to flourish within the wider organization. We probably didn't do a very good job initially, but we recognized that if we didn't allow it [the target] to maintain its own style of doing things then we were likely to destroy what we had acquired and so that business has continued to grow its position. It's the dominant entity within its business area and continues to grow stronger in that, year in, year out.

Interestingly, five participants said in hindsight that despite the massive undertaking of merging operations, if they could do it again, they would have slowed the process down. One participant said with hindsight:

> We tried to integrate too much to start with. We had a theory that certain things could be run more centrally than it turned out. I'm not saying it wasn't possible but it certainly wasn't very simple. And probably it wasn't worth the management

> time and aggravation it caused; we'll see. I think we should've spent more time just getting to know each other and settling down, and understanding each other and then agree to do one or two things together rather than agree what we needed to do. The expression "easy wins" I have discovered is a two-edged sword in that someone says, "This is for a easy win;" and everyone says, "Right!"; rushes about; and suddenly you've got 25 projects going, which turn out in some cases neither to be easy nor wins. And with hindsight, now four years in, it is much clearer where the "wins" are.

Another participant in a totally different business line agreed, saying:

> You know I think I actually would have slowed down the financial integration. I think I would have realized that when you force the back-office integration too quickly, it forces the target company to change a lot of their business processes and practices that are unique, and sometimes you lose some of these advantages. You cause a lot of confusion for them to have a volume-based business model—a very successful model which, you know, we disrupted a little bit. It's a very disruptive process.

One participant who did not merge operations together explained why not:

> No, not so much integrating because there's still room to grow in the markets that we've identified as growth scenarios. Usually, the consolidation doesn't occur until the market becomes more mature. So we got time to go on that. Now, if there's a couple of companies that appeared in Brazil, would we look to acquire those? Yes. But they probably have slightly different technologies, and in which case we'd say that'll fit into our overall platform of equipment. In the past we would not have merged those together in any shape or form. Today, because we're at the size we are, we would now look to say we really want a business unit that's maybe approaching more like $100 million in revenue rather than just a $5 million or $10 million, in which case we may then start merging them together. But one of the things that we are very keen about is ensuring that we stay close to our customers and that our businesses are capable of making quick decisions and maintain that entrepreneurial spirit and if they get too "sluggardly," shall we say, right then they're not meeting the market need or customer need. So we're constantly watching out and making sure our business units have the size to make the investment but do not overburden themselves with infrastructure that slows down their decision-making process.

This goes against conventional practice that changes the need to be introduced quickly and decisively in order to take advantage of the expectation and acceptance of change that immediately follows any acquisition. It does, however, give greater speed and flexibility in meeting changing market and customer needs which occur more often in post-acquisition structuring.

In approximately half of market-entry cases, a low degree of integration was chosen because of little or no overlap with the acquirer's existing businesses in that geography. Because of this, targets were left to run with varying degrees of autonomy. In these cases the acquirers generally did not implement changes quickly, but instead took a slower and more measured approach, getting to know the target better: its strengths, weaknesses, and management team before deciding to make any significant changes. In some cases they made no changes at all, instead trying to achieve organizational cross-collaboration especially if target employee retention was considered a priority. One participant said:

> Analyze each business as a unique business and, figure out what the real drivers of the acquisition are. You make sure you optimize your integration strategy—if this business you're acquiring is really unique to your own DNA and your culture and your business model, it's better to keep them completely separate. If it's extremely complimentary, then certainly you can do a full merger and full integration of the operations. I think a lot of people go in with a mindset that we do things better and we're going to fully integrate the business, but they lose that innovative and unique culture that was really the reason why they are acquiring it.

By contrast, one respondent said with hindsight they could have moved faster and wish they had, but because of concerns over losing key individuals and resources they took a more cautious approach.

Partnering

This approach of the softer touch in integration is called partnering—one whereby both the acquirer and target understand that they each have strengths and focus on those while collaborating to achieve their overall goals (Kale, Singh, and Raman, 2009). Synergies are prioritized and pursued but not to the detriment or disruption of the target's day-to-day operations. In essence, even though the target has been acquired, it is handled much more like an alliance partner than an acquisition (ibid.). This approach was used initially by emerging world acquirers for their developed world acquisitions where they wanted world brands and technology and didn't want to lose the acquired management expertise. It was used equally as successfully by developed world globalizers in this research. Because of the low degree of integration pursued in a partnering mentality, the focus is not on cost synergies but top-line growth synergies and making connections throughout the organization. What becomes critical for success are internal linkages and networking.

A problem inherent to low degree of integration acquisitions is just that—the ability to ensure intra-organizational collaboration. Inevitably, the issue is "Catch-22" that, although the target requires autonomy to protect its pre-acquisition innovation, that same autonomy obstructs collaboration and knowledge from flowing back to the acquiring company post-acquisition.

The balancing act becomes preserving the capabilities but ensuring they are accessible by others within the organization; it is not easy to achieve under any circumstances, nonetheless, involving acquisitions with different systems, processes, cultures, and in differing geographies.

Several techniques and factors have been used to enhance collaborative capabilities. A key success factor for knowledge management within autonomous companies is having a strong internal awareness themselves, a greater "absorptive capacity" from which to begin. The mantra, "know thyself," applies in this situation—organizations who understand their strengths, weaknesses, communication systems and processes are more likely to ably interact with others. Sophisticated communication systems that make the necessary horizontal linkages throughout the organization are also seen as invaluable for collaboration. As discussed, nothing replaces rich communication and the personal ties and relationships that develop from face-to-face meetings. Thus, frequent horizontal meetings and forums are needed preferably around specific projects. Organizations who move employees throughout the organization often find employees' personal ties are much stronger with individuals having made connections throughout the world. Those organizations with long-tenured employees also find those employees have more extensive internal relationships built over years of networking; thus employee retention becomes an important element of internal collaboration. Finally, some organizations manage innovation centrally through a centralized "innovation unit" thereby facilitating overall coordination.

Centralized knowledge units

Over 20 percent of participants had a centralized unit where transaction knowledge was codified; this is not surprising given the size of the organizations participating. The in-house acquisition teams codified inorganic growth knowledge, sourced and implemented acquisitions, and in some cases alliances and divestments. In half of those cases, the acquisition team worked with a separate alliance team; the other half of participants combined the two departments. The scale of some survey participants' in-house teams was enormous ranging in size from six employees to several companies interviewed having in-house teams of over 100 employees undertaking literally billions of dollars of acquisitions and disposals annually. BP, for example, over a period of a couple of years, does $30–40 billion of disposals and $20–30 billion of acquisitions.

One participant had a centralized unit who also dealt with international organic growth initiatives finding that the issues of overseas expansion were too related to keep separate. In cases where they had separate units, tight collaborative relationships formed between the units. One participant who had separate units commented:

> We are much more cautious about doing deals than before—for every opportunity we do a "buy or build" analysis where we look at the advantages and disadvantages of each approach and growth methods. Very frequently something that originates on my radar, I will pass over to another unit to either partner with or go with organic growth opportunity.

Having a single depository for acquisition knowledge can be the most effective means for ensuring implementation runs smoothly as it ensures a degree of repeat expertise in team members who can replicate the in-house process for each transaction. By understanding their own culture, systems, and processes, this format should be more efficient with less duplication of learning.

Because of the sheer size of some of the units studied, coordination within the group can even be a challenge. One participant, when asked how they collaborate in a large organization with a centralized unit, replied:

> The first, perhaps the most extensive, way by which that happens is informal networks. They are reasonably good. We have a flat and open culture such that anybody can pick up the phone or e-mail anybody else. The challenge is knowing that there's somebody who might be able to help. Of course, we've got a perfect communication tool—our own intranet and then marketing and promotion that people do within the organization where there is a center of expertise. But that's bad. It frequently happens that the wheel is reinvented multiple times. It's a real challenge for our group, which is 60 people. It's a real challenge for us to know all that's going on and to make the connections. We really have tried to be much more disciplined about using a replicable process for inorganic growth and that is to some extent centralized.

Other groups prefer to have a manager appointed by the acquirer who is the "point person" with the target post-implementation coordinating the process. This presents other difficulties as one participant explained:

> There are several keys to making the deal happen successfully. Due diligence is the start to that and we put in an integration manager who is a senior executive who has authority, is flexible enough to handle challenges, and has partners at the top. The hardest part in our company is finding that person, not just once, but 130 times.

Critical to capturing knowledge is understanding lessons learned. Approximately 75 percent of acquirers tracked their acquisitions' synergy achievements centrally to understand key success factors. Most post-acquisition tracking was done at the unit level responsible for the transactions. A few deeply analyzed the transactions in order to perfect their acquisition process and learn accordingly. One participant commented, "As a company we always analyze and draw lessons from previous collaborations and partnerships. We do financial reporting but we also measure operational indicators such as customer service, customer satisfaction index, etc." Another participant with a centralized unit commented:

> We have a big book about integration, which has not been brought up to date recently; we had a good platform of beliefs and good practices and also things

that we would give to new country managers to integrate. We don't have a book on JV but, you know, normally I see this book about integration is also used for joint ventures. I used it when I did the joint venture in China. We did use a lot of the information that was in the M&A book for issues that arose in the JV. It's the same—it's about integration: what you do and how you treat your partner.

Conclusion

Acquisitions and joint ventures do differ in terms of control, ambiguity, and intra-firm collaboration. But they share many similarities. Communication, cooperation, clear objectives, and commitment are all paramount to success. What also becomes clear when talking to survey participants and analyzing the existing research is the importance of leadership in these times. As one survey participant put it, "If the people are right, then the business will be okay. If the people are wrong, then we'll never fix the business."

The collaborative approach is being used increasingly in top-line growth acquisitions, building upon a concept of partnering where targets are left semi-autonomously and competencies shared across the organization. It is the idea of being a huge company but acting like a small one, where everybody knows everyone else's areas of expertise and creating an environment in which cross-fertilization of ideas is absolutely encouraged.

Case 7.1 Cadbury Schweppes and Adams

Cadbury Schweppes' growth during the first decade of this century is a classic example of a globalizer refocusing and using a transformational acquisition in Adams to reposition itself. In 2002, Cadbury Schweppes was already a market leader in the European and former British Empire confectionary and soft drinks market with approximately $7.5 billion in annual sales.

Adams had been a division of pharmaceutical giant Warner-Lambert that merged with Pfizer in 2000. Operating primarily in the Americas—40 percent of its sales were in Latin America—Adams was home to dozens of household chewing gum and confectionary brands such as Trident, Dentyne, Certs, and Clorets. But by being part of a pharmaceutical firm as a chewing gum division, albeit a market-leading one, led them to increasingly suffer from the "orphan syndrome." As part of the reorganization following the Warner-Lambert–Pfizer merger, it was decided to dispose of its noncore divisions and concentrate solely on pharmaceutical-related businesses. Thus Adams was put up for sale and Cadbury Schweppes was able to acquire them for $4.2 billion.

The acquisition catapulted Cadbury Schweppes from being a significant regional player ("regional dominant") to the world's joint leader in combined confectionary and chewing gum, with a market share of 26 percent. It also gave Cadbury Schweppes an instant footprint in the highly lucrative and growing Latin and South American markets while drastically strengthening its North American position. There was very little geographic overlap. In addition it brought together the strengths of both businesses: Adams' innovative R&D and Cadbury Schweppes' aggressive marketing. Duplicative synergies were realized accounting for approximately 4.5 percent of the purchase price.

The real benefit came from the dramatically increased geographic footprint. Sir Roger Carr, Chairman of Cadbury, at the time commented,

> We saw Adams as a company with significant brands and in a lot of markets that Cadbury was not. When you go to the Spanish- and Portuguese-speaking countries, the brands are strong and we simply hadn't got that kind of position with Cadbury. We inherited something that was undermanaged, a fringe business where the basic performance could be improved simply by involvement and direction. You could add to that the integration benefits of common distribution and the fact that Cadbury were very good brand managers. Cadbury management brought those skills to further improve what was already a strong brand set from the Adams Group. So it was a very good fit—geographically, product-, and culture-wise–strong synergies and excellent growth opportunities.

This example highlights several points. Firstly, globalfocussing and the rapid consolidation of related industries such as pharmaceuticals meant attractive nonrelated core businesses, including Adams, became available. This facilitated the rapid and aggressive expansion of Cadbury Schweppes who in turn were pursuing their own globalfocussing and used this transformational acquisition to do so. Ultimately Cadbury Schweppes spun off their own drinks and snack food businesses in 2007 in order to focus entirely on the global confectionary market thereby illustrating globalfocussing and the Millennia Merger Wave trend yet again.

Secondly, it highlights the serendipitous nature of transformational acquisitions. These opportunities do not come along all the time: in fact, as Sir Roger Carr added about the Adams acquisition, "It was a one-off opportunity and had that not occurred then the Cadbury story would've been very different." In acquiring Adams, Cadbury Schweppes had to fight off other contenders such as Wrigley who were just as keen as them to acquire their transformational target. Thus, transformational acquisitions serve the purpose of not only radically reshaping one organization but they also keep another organization from being able to transform themselves.

Case 7.2 Lonrho and Rollex

Lonrho have been operating in the African continent for over 100 years. They are one of only two companies (the other being Coca-Cola) that conduct business in every country on the continent. They used acquisition to form the skeleton of its agricultural business and have subsequently enlisted a variety of other means to build upon that initial acquisition. The business acquired, Rollex, is a vertically integrated agricultural processing and logistics business that specializes in transporting fruits and vegetables grown throughout the region to their processing centers where they are chopped and packaged for

shipment to South Africa, the United States, and Europe. David Armstrong, Finance Director of Lonrho, said, "Agriculture was a key target sector and only a vertically integrated approach really makes sense. That means being involved from when you plant the seed right through to delivering it to the customer on the plate." Rollex provided the logistics and processing capability. Armstrong added, "Rollex has always been identified as the spine of the agriculture business because of its logistics and processing capability. It wasn't the biggest one involved in agriculture but it was the only one of sufficient skill involved in the vertically integrated fashion." They also had a good geographical spread with its headquarters in South Africa, and operations in Zimbabwe, Zambia, Mozambique, Botswana, and South Africa.

Lonrho initially acquired 51 percent with an earnout arrangement but moved toward full ownership more quickly in order to bolt on additional businesses and create scale quickly and in doing so have developed the largest processing center in the Southern Hemisphere. The agriculture portion of Lonrho's business is being either grown organically through land acquisitions, through joint ventures, or smaller acquisitions. They purchased the largest farm in Zimbabwe and have established strategic alliances to supply up to 80 percent of material for processing. In addition to Rollex, Lonrho purchased another freight-forwarding business and are moving Rollex onto that systems platform; they also have purchased more processing capacity.

This case highlights the use of acquisition for speed in establishing one's strategic intent. It also demonstrates how companies use a variety of means to achieve their overall objectives—acquisitions, alliances, organic growth, all work in tandem in order to best achieve the organization's strategic ambitions. While the initial division's structure was acquired, it was expanded through a variety of means.

Case 7.3 Lafarge in India

Lafarge, the world's largest cement maker, have grown significantly through a combination of organic growth, joint venture, and acquisition. They coordinate their expansion efforts through their small, centralized acquisition team. One of their successes is their expansion into India via two separate acquisitions. The first was via an acquisition of Tata Industries' former cement operations in 1999. A second operation was then purchased from the Raymond Group in 2001 and the two were combined. As part of the integration, both operations were upgraded and revamped with significant investment. An ambitious organic growth strategy was achieved with great success with production capacity doubling. To build on this success, Lafarge built a further facility to increase capacity an additional 30 percent.

According to those within Lafarge, the key to this acquisition success is twofold. One is the "orphan syndrome" in which both plants came from environments where they were not core industries. As neither was a priority, they possibly did not receive adequate investment or management time. The acquisition by a related industrial organization led to not only an increase in investment but also greater attention paid to local management. In the Indian operations, Lafarge found in its Indian workforce a "huge talent pool with a lot of knowledge and enthusiasm." Lafarge began by taking some of the key Indian managers and moving them within the Lafarge network to other locations throughout the world. This not only worked in increasing cross-country collaboration and knowledge sharing, but also signaled to the remaining workforce that they were valued and "had found a home with Lafarge." As a result, employee turnover is 15 percent less than the industry norm even though Lafarge pays the average in terms of wages.

The second factor was the combination of "being global but acting local." Lafarge brought to their Indian operations better management practices, technology, and investment, but kept the feel very local, not even changing the corporate name. They found that the local Indian cement market was unique, in that it was heavily skewed toward retail rather than industrial sales. As a result, Lafarge tailored their marketing to that effort with great effect even to the point that they recruited from fast-moving consumer goods companies such as Hindustan Lever, a practice unique to India Lafarge. According to a senior Lafarge executive, employees felt they "were working for their country but under the umbrella of a big multinational's systems and processes." Thus they are able to capitalize on the best of both worlds.