



**Redesigning the Due Diligence Model-focusing on
the human part is indispensable for success in
international M&A**

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Foreword

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With this dissertation we complete our study at Kristianstad University. During International Business Study we gained a lot of competences and experiences of which we could take advantage when writing this dissertation.

The process of writing the dissertation was a time of challenge and inspiration. We have had the opportunity to test our knowledge and learn the importance of cooperation.

We would like to express our gratitude to our tutor Christer Ekelund for his support and the guidelines he gave us throughout the process of writing. We would also like to give a special thanks to our English teacher Viveca Fjelkner for taking care of the English side of our dissertation.

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Abstract

This dissertation presents the critics of a successful due diligence and thus difficulties of a well done merger or acquisition as well as where there should be more attention in order to conduct a successful M&A. In the field of M&A, many studies have concluded that after the deal most of the time the shareholder value will decrease rather than increase. Due to that the critics of a successful due diligence and thus difficulties of a well performed merger or acquisition will be discussed as well as where there should be a higher attention in order to conduct a successful M&A. It is assessed that during the due diligence process most focus is on the financial, legal and commercial issues. Also the part of the human resources is mostly just focused on the legal and financial items. Since the future performance of the combined company has a high connection to the employed staff, this dissertation focuses on the human and cultural side of a due diligence. It is investigated what managers have to be aware of, how communication and integration of employees should be managed as well as the combination of different cultures. Therefore we developed an altered human recourse due diligence model. In that it is explained how we think a human due diligence should be prepared and what has to be included. Furthermore it is explained how the integration of humans and their culture can be fulfilled and what has to receive attention.

In the analysis a survey of consultants is presented which shows how far companies already think about the mentioned issues as well how the respondents believe that an altered human resources due diligence model will be more useful for successin M&A transactions.

Keywords: Due Diligence, human resources, Merger&Acquisition, planning of integration,

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Chapter 1

Introduction

In chapter one the background and the purpose of the dissertation are presented. The problem and limitation of the research are also pointed out. Next, the research questions are formulated. Finally the layout and the structure of the dissertation are outlined.

1. Introduction

1.1. Background

Mergers and acquisitions (M&As) have been part of the business landscape for decades (Cooper & Finkelstein, 2004) and become a very common way for companies to expand their business, to create growth in market dominance and increase their profitability. There are many financial objectives behind the deals, but there are also many effects of the cross-border amalgamations on companies taking part in the deal as well as on their employees.

Although in the current business literature there could be found many items that describe how to make a deal successfully or what ought to be done to conduct proper acquisition. Though during merger and acquisition transactions well prepared experts and consultants are involved, almost 80% (Yehekel 2004) of the deals come up with big problems or just fail to

live up to expectations. Thus, the evident question came to our minds: Why do so many cross-border amalgamations just fail?

Finding the reasons for and answer to the above question seemed to us a very interesting subject to investigate. Since some of us gained experiences with mergers and acquisitions in the companies we had worked for, and as we are also personally interested in enhancement of the knowledge in the M&A area, we decided to write about human, cultural and management problems, which in our opinion, belong to the main causes of unsuccessful amalgamations.

1.2. Problem

In the beginning of each amalgamation there is a due diligence process, when the buyer or consultants analyse or audit all aspects of the company in order to find out all details about the target company. This process is mainly focused on: financial data, legal or commercial issues, marketing prospects and IT systems.

Human resource due diligence is often underestimated and to the best of our knowledge the findings are often not integrated with the rest of the due diligence process. This could be one of the main causes why so many international M&As fail. Since the human part seems to be one of the most important factor determining the success of the cross-border amalgamations, bigger attention should be paid to this issue.

In our opinion, it is not enough to focus mainly on the legal and financial part of the human resource. How to integrate differences in organizational culture and tradition is also essential. The internal and external information

and communication system as well as employee policy ought to be planned before the decision about the deal is taken.

In our literature research we found some advice how to come up with a better human due diligence, but there was no real model which could have been useful to solve the existing problems. Thus, our main focus was on the integration and post-acquisition planning concerning Human Resource and cultural aspects that should be done before the deal is signed.

As there is a lack of understanding of the importance of the due diligence for the success of the whole process of the M&A transaction we decided to create the altered human due diligence model. In our opinion human and cultural aspects are usually omitted during the due diligence process. The due diligence mainly consisted of the analysis and investigation of the financial data of the target company. There is no detailed planning for the combination of the companies, but we believe that the planning must be an integral part of each due diligence.

1.3. Purpose

Our main purpose with this dissertation was to create an altered human resources due diligence model and examine if it is applicable in practice. By creating the altered human resource due diligence model we hoped that it will be a useful hint for managers who take advantage of the due diligence model in order to conduct successful international M&As.

Our purpose was also to examine the literature of different researchers about due diligence and consideration of the main human problems and cultural differences in the amalgamations in order to find the better way to avoid them by applying a more detailed human resources due diligence model.

1.4. Limitations

During the literature review we found many researches referring to our dissertation topic. But due to the time limitation we decided to investigate literature of the most well-known and highly valued researchers.

Time and money also constrained our empirical survey which was based on the questionnaire sent to the advisor companies. The altered human resource due diligence model and relating hypotheses were tested on international consultants. This could have had an influence on the research's results. Valuable for the findings of the research would also be the assessment of our theory by managers who work in the acquired or merged company.

1.5. Research Questions

The research questions are divided into two parts. First we come up with the general questions concerning the M&A process:

- Why do so many M&As fail? - Draw conclusions on the main causes of failure/success in M&As.
- What should be done in order to conduct a successful M&A?

- What are the most important factors in the process of the M&A that provide success?

Then, our research focuses on precise questions relating to the due diligence in the process of the M&A. We try to evaluate the importance of the due diligence for the successful amalgamation and answer to questions related to the human due diligence model:

- What are the most important factors in the altered human resources due diligence model?
- Do practitioners believe that an altered human resources due diligence model will be more useful for successful M&A transactions?
- Is the human resources due diligence model and due diligence process practically applicable for the practitioners who deal with international M&As?

1.6. Outline and Structure of the Dissertation

1.6.1. Outline of the Dissertation

Chapter two presents the methodology used in the dissertation. First, the philosophy and research strategy are described. Then, the applied approach is defined. Finally the chapter concludes with the description of the data collection.

Chapter three includes the definitions of ‘merger’ and ‘acquisition’. Differences between these terms are pointed out. Then, the several objectives and motives for international M&As are discussed. The causes for failure of cross-border amalgamations are analysed. In this chapter an

explanation of due diligence is also given. Finally, the importance of due diligence in the M&A process is expressed and the place of due diligence in the M&A process is outlined.

Chapter four contains the critical points about the common due diligence model which have been found by literature review. Here are the main elements: the due diligence described from the human perspective, planning of integration, involvement of consultants and involvement of the company's own employees. The chapter concludes with the critical reflection of cultural issues.

Chapter five presents the altered due diligence model and the reasons for its creation. The HR department tasks are analysed and the example of an integration plan, which includes advice how to solve the criticised issues from chapter four, is described.

Chapter six describes the empirical method used in the dissertation. The research strategy and limitation are discussed. Sample and the response rate for the conducted questionnaire are analysed. Finally the validity and reliability of the research are presented.

Chapter seven presents the results of the questionnaire and evaluates the hypotheses. The critical points about the common due diligence model are tested and whether our altered model was correct.

Chapter eight summaries the dissertation. The conclusions of the research are defined. The applicability of the altered due diligence model is analysed and the modification of the created model is presented. Future research and practical implication are suggested.

1.6.2. Structure of the Dissertation

The structure of the research down below (Figure 1.1) shows the correlations of the contents of the separate chapters.

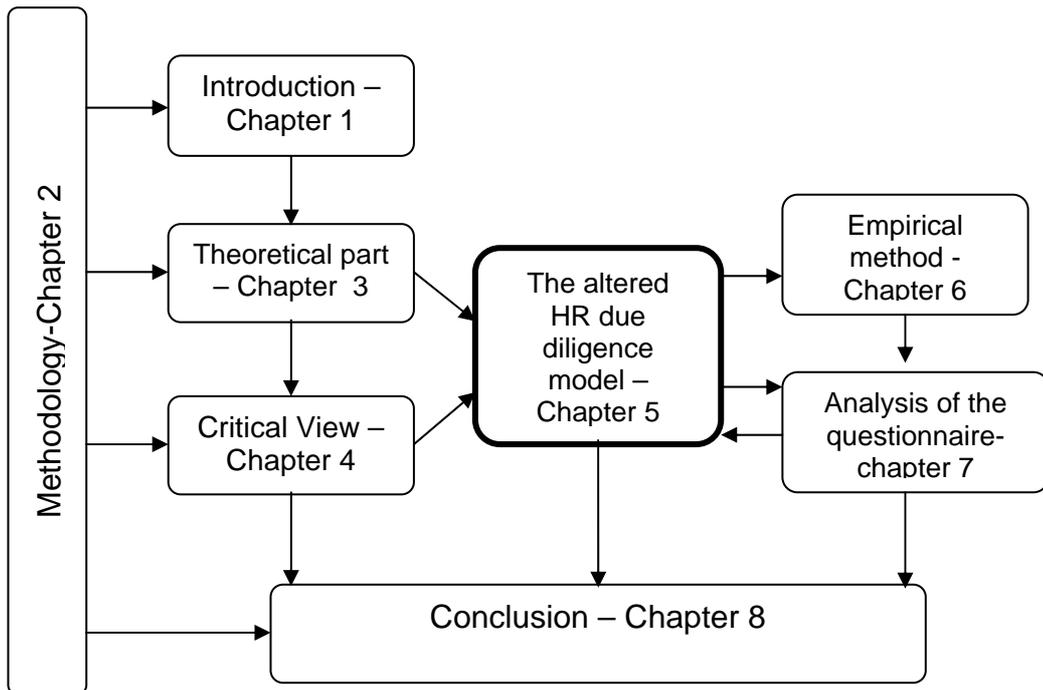


Figure 1.1 Structure of the dissertation

Chapter 2

Methodology

Chapter two presents the methodology used in the dissertation. First the research philosophy and strategy are described. Then, the applied approach is defined. Finally the chapter concludes with the description of the data collection.

2. Methodology

2.1. Research Philosophy

As we described in chapter one, the purpose of our dissertation was to alert an existing due diligence model concerning human resources. Therefore we studied literature referring to this subject, then we criticized existing theories and finally redesigned the human due diligence model. We tested our hypotheses using both during questionnaire and interview. During our research we were independent. We collected and analyzed data and chose existing theory applicable for our model in an objective manner. Therefore we adopted positivism as our philosophy. This philosophy assumes that “data is usually collected in a structured manner with the researcher not intervening in the phenomenon of interest and seeking for theory testing in value-free generalizations. In other words, the data and its analysis are value-free and data does not change because they are being observed. Different observers using the same methodology should obtain similar results...”. In Positivism “universal truth and laws are

able to explain and predict behaviours and events” (Perry, Riege, Brown, 2004).

2.2. Research Approach

During our research we developed theory and hypotheses and designed a research strategy to test the hypotheses. We tried to prove that cultural differences and human issues are underestimated during due diligence and focusing on these parts enhances chances of the success in international M&A. Therefore we reviewed the main researchers’s literature referred to area of the international M&As and then we altered existing human resources due diligence model. Thus, our research uses a deductive approach. Moreover, our survey moved from theory to data, which was collected during the interview and questionnaire sent to 98 consulting companies associated in the International Network of M&A Partners. Obtained 20 answers enable us to argue that our implemented changes into existing due diligence model might present useful hints for managers who are responsible for conducting a successful cross-border amalgamation. Thus, our research uses also an inductive approach, which assumes “collecting and developing theory as a result of data analysis” (Saunders *et.al.*,2003 p.85).

Data analysis can be both a quantitative and a qualitative research. “Qualitative research is more inductive while quantitative research is more deductive” (Pascal, 1999, p.17) Therefore, our dissertation is a mixture of the two methods, qualitative and quantitative analysis.

Our dissertation is an explanatory as well as an exploratory study. There are “three ways of conducting an exploratory research: a search of the literature, taking to the experts in the subject and conducting group

interviews” (Saunders *et.al.*,2003 p. 97). Our survey also “focused initially broad and became progressively narrower as the research progresses” (Saunders *et.al.*,2003 p. 97). All above mentioned principles of an exploratory study were applied in our dissertation. But by establishing relationship between variables in our hypotheses our research became also an exploratory study. We tried to prove that focusing on the human part during due diligence enhances chances of the success of the international M&A.

2.3. Data Collection

2.3.1. Primary Data

We posed six hypotheses in our dissertation. As we mentioned before the main assumption in our survey is to argue that *focusing on the human issues during the due diligence stage enhances the chances of the success of the international M&A*. We developed existing human resources due diligence model on the base of the following hypotheses: *Analysis of cultural differences is indispensable in a human due diligence; A proper information and communication system has to be included in a human due diligence model, to create a successful combination of two companies into one; A cultural combination plan should start in a due diligence as soon as possible*

The altered due diligence model is linked to a due diligence process which relies upon the two following hypotheses: *Integration planning should start as early as possible, in the due diligence stage as well and finally, A combined due diligence team, with less involvement of consultants and a*

higher involvement of the company's own employees, create more advantages and better results in the integration of the two companies.

To test the above hypotheses and the altered due diligence model we conducted an online questionnaire to companies associated in the International Network of M&A Partners (IMAP). First we did the pilot test through a personal interview with a Swedish partner of the association. The knowledge gained during the interview with the consulting company enabled us to make some changes to the questions and create the final version of the questionnaire, which was distributed with the cover letter via email to all offices of the advisory companies of the IMAP in 22 countries. The cover letter included a link to the web side with our twenty-four questions which seek to test our assumptions about human resources due diligence theory.

2.3.2. Secondary Data

The phenomenon of international M&As is well known since 1970s and the amount of the cross-border amalgamations still increase, therefore there could be found much literature concerning this subject. However, writing our dissertation, we decided to choose contemporary literature. Books, articles, journals and dissertations written in English, German, Dutch or Polish. Our research started from literature related to the international mergers and acquisitions; then we studied researches which analyse the causes for failure of the international M&A. Finally, we focused on the literature describing due diligence. We criticized existing due diligence models, which mainly treat legal, financial and commercial issues, underestimating human and cultural aspects. Thus, we narrowed our survey to human resources due diligence (see figure no 2.1). We created the altered human resources due diligence model on the base of the

theories mentioned by the researchers T. J. Galpin and M. Herndon (2000), P. Howson (2003), and the survey of PWC (2005). The importance of the individuals for a successful M&A process also F. Buono and J. T. Bowditch (1989, 2003) emphasize. Since we decided that the cultural aspect ought to be an integral part of the human due diligence model, our model was also based on the research of A. Risberg (1997, 1999) and Larson (1997).

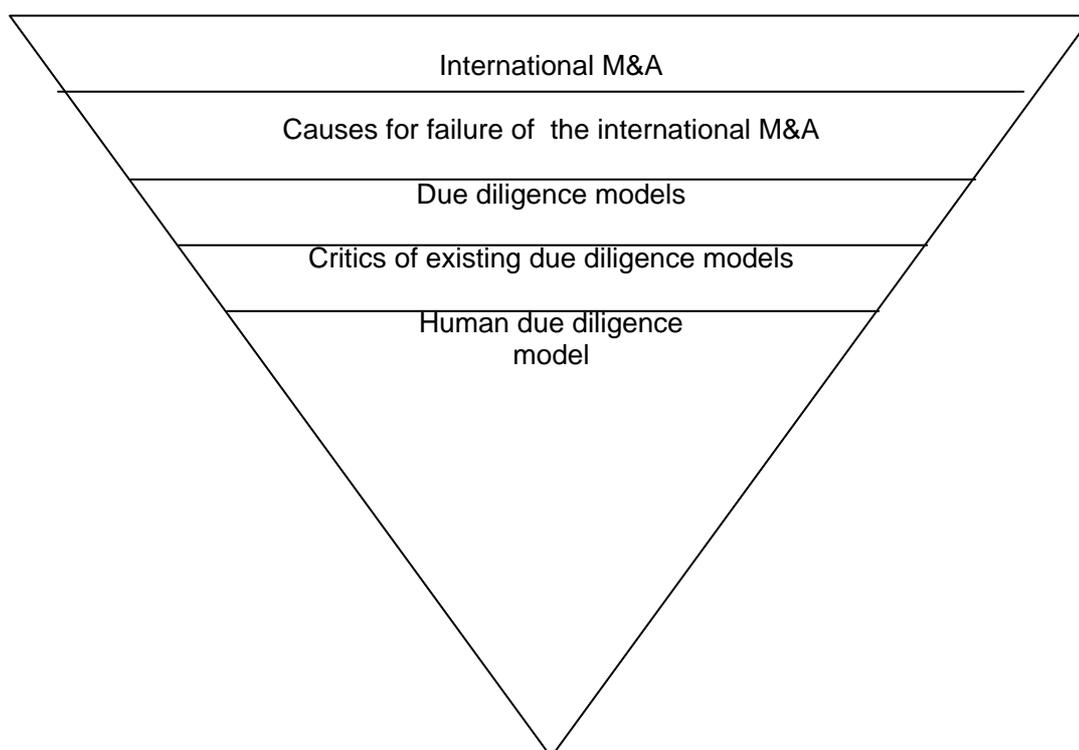


Figure 2.1 Literature review

Chapter 3

Theoretical Review

In chapter three the definitions of 'merger' and 'acquisition' are described. Differences between these terms are also pointed out. Then, several objectives and motives for international mergers and acquisitions are discussed. The causes for failure of cross-border amalgamations are also analysed. Finally, the importance of due diligence in the M&A process is expressed and the place of due diligence in the M&A process is outlined.

3. Theoretical Review

3.1. Introduction – International M&As

In the past twenty years the world has grown to a global market which opened many advantages and perils. A global market raises price and cost erosion and the power of market shares is becoming more and more important. To handle these kinds of troubles of a global market there are several ways for companies to deal with. There may be a syndicate for a temporal cooperation to fulfil one project which cannot be handled by one single business. To enter or expand in a new market, there might be contracts of cooperation for distribution or purchase to reach a better cost structure. A higher step of contractually based cooperation may be a joint venture of two or more companies to accomplish a business or project. One example of that is the joint venture of SonyEricsson that produces mobile phones. The highest step of business cooperation is the amalgamation of two companies in the form of merger or acquisition.

Depending on the strategic goals of the company and several other factors such as motives or expectations of managers, the company may merge or acquire on its domestic market or might strive for a company placed abroad. Although, cross-border amalgamations are much more complex than domestic acquisitions “due to differences in political and economic environment, corporate organisation, culture, tradition, tax rule and law” (Sudarsanam 1995, p.265) between the countries of the acquirer and the target company, the number of M&As made by companies in foreign countries has increased rapidly in recent years.

Researches point out that more than 50% of transatlantic deals fail to live up to expectations, and end up destroying, not creating shareholder value. Cross-border businesses do not reach market dominance or do not take any advantage from economies of scale or synergy. According to a KPMG survey (published in 2001) only 17% of the deals added value to the new combined organization, 30% produced insignificant difference and as many as 53% actually destroyed value. In other words 83% of mergers and acquisitions were unsuccessful in creating any business profits as regard to shareholder value.

In order to find causes for numerous failures of international M&As and point out the key factors that determine the success of cross-border amalgamations, it is important to know what the terms “merger” and “acquisition” mean.

3.2. What does M&A Stand for?

As explained in the beginning a merger or acquisition is one of the highest steps in business cooperation. The phrase mergers and acquisitions or mostly written as M&As refers to the aspect of corporate finance strategy

and management dealing with the merging and acquiring of different companies as well as other assets.

The term “*merger*” refers to the combination of two or more companies in which one of the companies survives and the other might cease to exist. Usually, in a merger the companies come together to combine and share their resources like employees, production or know-how, in order to achieve common goals (Sudarsanam 1995).

“*Acquisition*” occurs when one company takes control of another by purchasing a majority or all of the target company's shares (majority interest).

An acquisition resembles more of an arm's-length deal, with one company purchasing the assets or shares of another, and with the acquired firm's shareholders ceasing to be owners of that company. In a merger a new entity may be formed subsuming the merging firms, whereas in an acquisition the acquired firm becomes the subsidiary of the acquirer (Sudarsanam 1995).

Although the terms “merger” and “acquisition” are often used interchangeably, they have a different meaning from the financial, marketing or ownership point of view. Even if the distinction is important for specific contexts, we use the terms interchangeably.

In the literature and common parlance we can also find the term “**takeover**”, which is used to describe a corporate action, where one company acquires more than 50% of another's shares. A takeover is similar to an acquisition. (Sudarsanam 1995).

Takeover bids are generally classified as being 'friendly', 'contested' or 'hostile'. A 'friendly' takeover may occur when the first bid made is accepted. 'Contested' takeover means that there are specific issues which have to be accepted. The distinction between 'hostile' and 'friendly' acquisitions might only be used to characterize "the attitude of the shareholder and negotiating management, rather than those of the acquired workforce" (Cartwright & Cooper 1997, pp. 33-34).

There are many others types of M&As. See appendix no. 1.

All the types of M&As described above and in appendix no. 1 refer to the way in which companies are combined and are closely connected to the strategic objectives of the amalgamation. What are the other objectives of the M&A?

3.3. Objectives of M&A

Objectives of M&A may derive from strategic company goals or motives of the managers who may act in their own self-interest.

The fundamental objective of M&A, recognised as business strategy objectives, is the enhancement of shareholder's wealth through accessing or creating competitive advantage. The immediate objective may be the growth of the acquirer's assets, sales and development of the market share or achieving marketing, distribution or resources synergies (Sudarsanam 1995).

Researchers Cartwright and Cooper (1997) point out that achieving financial synergy, described as the '2+2=5 effect', is seen as a main objective of amalgamation. According to Hovers (1973) "the main aim of every takeover is to produce advantages for both the buying and selling

companies compared with the alternative situation in which both companies will continue independently". The expectation is that the combination of the companies will increase efficiency, profitability and shareholder value. By amalgamation the new combined company will widen the markets and gain from economies of scale (Cartwright & Cooper 1997, pp. 33-34).

3.4. Motives Behind M&A

As mentioned above the maximization of the shareholder value is the main objective for acquisition. The literature on merger motives generally draws the distinction between fanatical or value-maximizing motives and managerial or non-value-maximizing motives (Napier, 1989) although, in practice, the two are often related. (Cartwright & Cooper 1997).

M&A are considered to be initiated by financial or value-maximizing motives when the main objective is to increase shareholder's wealth and financial synergy through economies of scale, transfer of knowledge and increase of control.

Managerial or non-value-maximizing motives relate to M&A which occur primarily for other strategic reasons, e.g. to increase market share, management prestige, restore market confidence or even as a takeover defense or a means of protecting from taxation (Cartwright & Cooper 1997)

Managers who are responsible for conducting M&A may underestimate the business goals and act in their self-interest. In the acquisition context this self-interest may result in failure of deal or loss of shareholder value. Managers may undertake acquisitions because of several subjective motives e.g. to realize growth in the size of their company. They may

derive benefits such as power and social status when they run a large firm. It is described as *the empire-building syndrome*. (Sudarsanam 1995).

Managers might also deploy their underused managerial talents and skills. Where a firm is in a mature or declining industry, the survival of the firm may depend on an orderly exit from that industry and entry into one with greater growth opportunities. The present industry operations may not exhaust the managerial energies and talents available to the firm. Without moving into a growth industry, the firm may lose young managers and thereby accelerate its own decline. This is known as *the self-fulfilment motive of managers*. (Sudarsanam 1995).

The other reason, described as *job security motives*, are recognised when managers go for a deal in order to diversify risk and minimise the costs of financial distress and bankruptcy. But diversification tends to be unprofitable due to conflict of interest. Managers might also be willing to take over another company to avoid being taken over (Sudarsanam 1995).

Above mentioned managerial motives might contribute to the failure of M&A and are some of the causes of many unsuccessful deals.

The cause of failure of acquisitions cannot be only attributed to managerial incompetence. There are a variety of other reasons. Thus, what are the other causes for failure of international M&As?

3.5. Causes for Failure of M&A

As we mentioned above there are several reasons why so many M&As fail to succeed in cross-border business. In order to point them out we should first define when the deal is recognised as a success and when as a failure. Researchers (Lubatkin & Shrieves 1986; Pritchett 1985) agree that it is difficult to assess what actually constitutes a successful merger.

Main problems concern the diversity of groups involved. What may be beneficial for the shareholder of an acquired company, may have a negative influence on the company's employees and the shareholders of the acquiring firm. Moreover, a merger that might initially appear to be a disaster might in the long run go quite well financially, while an acquisition that looks like a success may later turn into a financial catastrophe (Buono & Bowditch 2003).

Despite differences in the measurement and the estimation of the international M&As outcomes researchers assess that mergers have less than a "50 – 50 chance of being successful" (Pitchett 1895; cited by Buono and Bowditch 2003, p. 7) and point out multiple causes for unsuccessful amalgamations. The main reason for failure are *managers' incompetence, cultural differences* and *poor communication*. Other causes like *wrong strategy and poor goal setting* or *over-estimating the potential synergy* relate to corporate issues. The two last reasons, *integration plan not developed in advanced* and *problem areas not identified in Due Diligence*, are linked to conducting an M&A's process (Sudarsanam 1995).

3.5.1. Human Incompetence

As we described above managers have a significant influence on the outcomes of cross-border amalgamations. Even if they do not act in their own self-interest but according to the business strategy of the company, they might make a mistake that will contribute to the failure of the M&A.

By launching hostile bids managers may incur high transaction costs. They may make errors in estimating the value creation potential, since such an estimation is often based on incomplete information about the target company. If managers are not aware of these errors, they may

unwittingly overpay or enter into a hostile bid with a high transaction cost (Sudarsanam 1995).

Many managers underestimate the importance of effective negotiation in achieving the goals of the company. Poor negotiation might lead to a bad deal or hamper the conclusion of the deal. Paying too much for a deal may also occur and could be a reason for failure in the future. Managers may focus too much on the target company and do not calculate the real value. It could end up in a bid with a much higher price that is hard for the company to compensate even after several years.

Choosing the right management for a long period of time is the first step to effective integration. Managements who know the market or target country, and who have the necessary knowledge and language skills do much to reduce the potential failure (Rankine 2001).

Lack of clear leadership during the merger as well as in the post acquisition stage may lead to failure. It needs to be clear who the boss is, who combines the entity's strategy and who drives integration, otherwise the organization will lack cohesion and a common purpose; cost saving and development benefits will be hard to achieve. (Rankine 2001).

The acquisition plan includes a new organizational structure and employees who face new tasks and challenges need to be trained as soon as possible in order to fulfil the objectives of the combined company. So, placing the right people in the right position in the structure of the company seems to be the most important factor determining about success or failure of the international M&A.

Even if the company has the best educated managers and skilled employees, the merger may still fail due to the lack of proper communication between them.

3.5.2. Poor Communication and Information System

International M&As create a time of great uncertainty all round. The expected changes within the company might cause significant amounts of stress. Employees respond to stress in a variety of ways. The way in which the new management handles these problems often has an important bearing on the message which is being sent to them. But delivering the right message to the right people is not as simple as it sounds. All affected by the acquisition need different information since they have different fears.

The employees of the acquirer are concerned about the implications for their jobs, though probably not as much as the employees of the target company. Customers and suppliers are worried about how the new group will treat them, and shareholders are worried about the impact of the deal and their investments (see figure no 3.1).

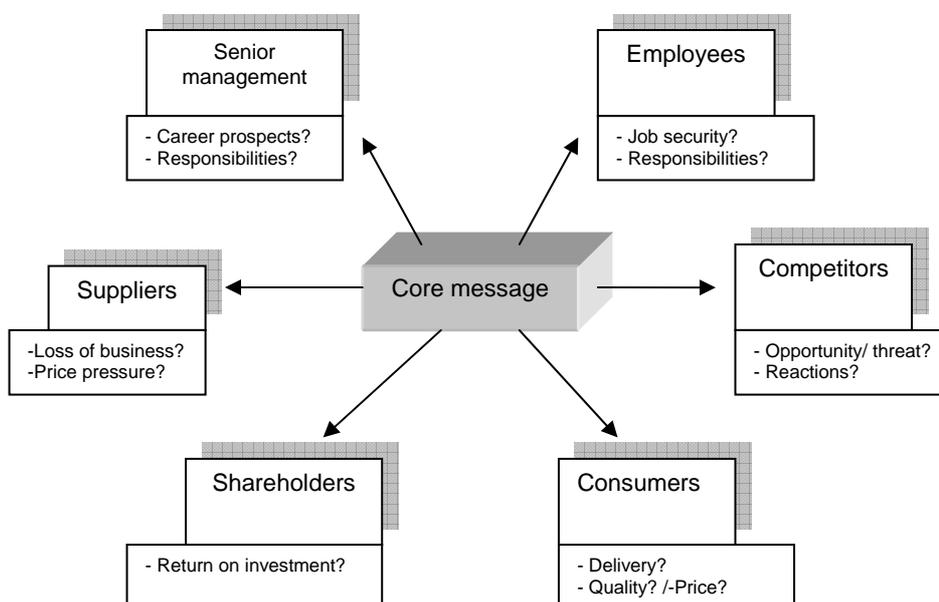


Figure 3.1 Information during M&A process. ¹

As described before securing the support of skilled and knowledgeable staff is vital. It is also vital for the acquisition team to establish effective communication with the top opinion leaders. (Rankine 2001). Poor communication between them as well as between all above mentioned members of the company might lead to lower productivity, lower product or service quality, customer loss, and also increased labour turnover. Thus, lack of proper communication system may cause disciplinary problems and in consequence a failure of the deal.

Even if management and employees are capable of communication in the effective way and they get the right information the acquisition might still be unsuccessful due to the cultural differences between employees of the companies.

¹ Source: Rankine 2001, p.156

3.5.3. Cultural Differences

Each company has its own organizational culture with which employees identify. The culture of an organization is like the personality of the individual. The greater the difference between a company culture the more difficult will the long-term integration of the two companies be. Achieving cultural change in the newly changed company can be both complex and time-consuming. The acquisition team often fails to combine structure and strategy, reward system, hiring, role model or physical setting of acquirer and target company. A lack of concern for the above mentioned cultural factors forms a major obstacle to success of international M&A (Nahavandi and Malekzadeh 1993).

The organizational culture conflicts and clashes are recognized as critical determinants of cross-border amalgamations. Cartwright and Cooper (1997) assume relationship between cultures match in a partnering of companies and a success of the acquisition: "The extent to which there exists a fit between the culture of the acquiring company and the acquired company will be directly correlated to the success of the acquisition".

Although the human factor seems to be the most important determinant for the success of international M&A, there are other causes like *wrong strategy and poor goal setting* or *overestimating the potential synergy* relating to corporate issues, which also play a significant role in the outcomes of the amalgamations.

3.5.4. Wrong Strategy and Poor Goal Setting

As we mentioned before, objectives of the international M&A might derive from the strategy of a company. But when the company follows the wrong

strategy and attempts to integrate an expensive acquisition, the error will be significant. A correct strategic analysis is essential in company decision-making about the types of acquisitions that ought to be considered, how large they should be, and how quickly they might be achieved (Rankine 2001).

Even though a firm may effectively analyse external and internal challenges it might still fail through poor goal setting. The first problem is the appropriate choice of objectives and the second is growth expectations. When the company sets ambitious growth targets, achieving them becomes paramount and the quality of implementation, particularly acquisition will often decline. Poor objective setting coupled with overambitious targets will lead to acquisition failure (Rankine 2001).

3.5.5. Overestimating the Potential Synergies

Another objective for an M&A described before is to increase shareholder value. This incremental value should come from synergies, but often companies make mistakes in the estimation of cost reduction and sales growth synergies. Post-acquisition cost reduction programmes may go wrong because they are wrongly estimated in a number of areas: management, employee resistance, regulatory problems, unforeseen additional operating requirements, or wrong choices in cost reduction (Rankine 2001).

The success or failure of international M&A might also depend on the way this process is conducted. Very important for a successful deal is to *develop the integration plan in advance and identify problem areas in the due diligence.*

3.5.6. Integration not Planned in Advance

The logic of M&A is that the majority of improvements stem either from cost cutting or profitable sale growth (synergies) and are achieved through close integration between the target company and the acquirer. The buyer company needs a detailed plan to take the necessary control over the target to achieve its goals. But if an integration plan has not been developed then the acquirer will not have accessed the synergies or valued the business properly. "The integration plan must be planned in advanced because its implementation should start immediately once the merger is completed" (Rankine 2001, p. 135). Decision about integration should be taken in such an advance that it enables a successful merger. The integration plan should be prepared during the Due Diligence.

3.5.7. Problem Areas not Identified in Due Diligence

A company aiming to develop via acquisition must invest the necessary time and money to ensure that the chosen target company will generate the desired returns or profit. The firm should analyse the potential target company in detail, because "the devil is in the detail" (Rankine 2001, p. 47). These ought to be checked in a due diligence. The role of due diligence is to audit the target company in all areas of its activities such as: financial, legal, commercial and human resources and provide valuable information. But it happens that due diligence does not identify problem areas. The reason for a wrongly conducted due diligence might be found in the questions that were not asked in the first place or if the questions were asked, satisfactory answers were not obtained. The other cause could be the deal process which might hamper the completion of effective due diligence.

The proper due diligence seems to be one of the crucial factors for success in international M&As. To conduct this process in the right way, it must be understood what exactly due diligence means and what should be done in this stage. Thus, the next chapter will give more detailed explanation about due diligence and its importance in the M&A process.

3.6. Due Diligence

Due Diligence is a specific term and often used in the merger & acquisition (M&A) business. In this chapter an explanation of due diligence will be given and after the place of due diligence in the merger & acquisitions process.

A due diligence is often used in a different perspective concentrated on a specific issue, the most important are the financial, legal and commercial due diligence. An explanation will be given from these three points of view. There are different types of due diligence, we will mention the common due diligence, known as the buyer due diligence and the vendor due diligence.

Finally, it will be mentioned that there is a different focus of due diligence in different types of deals and announce that a due diligence is not only used in a merger or acquisition but it is also a process which is used in investments, management buy in & management buy out, joint ventures and strategic alliances.

A due diligence is a process, which is used by different professionals and experts in a different business area, such as accountants, lawyers and consultants. These professionals have different interests and often a different interpretation of a due diligence.

After researching and analysing the theory of due diligence we decided to use one definition of due diligence during the dissertation, based on the explanation of due diligence by D. Rankine. The definition of Due Diligence that will be used during this dissertation is: *Due Diligence is the complete investigation and analysis of a target company that will be acquired or merged by another company* Due diligence is a form of risk management most commonly known as 'doing your homework before you invest' (James F. Klein, 2003).

3.6.1. What is Due Diligence?

Due Diligence is a term which is often closely connected to merger & acquisition (M&A). A merger or acquisition is a popular way for companies, to increase growth in market share, profit or to eliminate competitors. Before buying a company, you have to know what kind of business you are interested in. The outside may look very successful but that is not a guarantee for positive results in the inside of the company. By carrying out a due diligence, the buyer investigates the company in which he is interested. A due diligence is concerned with understanding more about the business being bought, confirming that the buying company is getting what it thinks it is buying, unearthing any risks in the deal, finding negotiating issues (P Howson, 2003). The due diligence have to be carried out very properly otherwise problems may arise after the purchase contract is signed. Due diligence plays a critical role in M&A (Angwin, 2000).

The investigation of a company can be very broad and that is one of the reasons why each person due to different interpretations would explain the term due diligence differently. Through the due diligence process there are

different experts involved who will research the company from a different view. By checking the financial part there are accountants involved and for the analysis of the legal part the lawyers are doing their job. A lawyer will explain the due diligence as follows: a process of enquiry and investigation made by a prospective purchaser in order to confirm that it is buying what it thinks it is buying; a dealmaker might go further and would say that due diligence is about reducing risks and a preparation for price negotiations (Howson, 2003).

3.6.2. What is the place of Due Diligence in the Merger & Acquisitions process

The whole merger & acquisition process can be shown in different stages. Different theories exist about in how many stages a merger or acquisition process can be divided. In accordance with Galpin (2000) we choose to divide the merger & acquisition process in four stages. The first and the second are about the pre acquisition stage then there is a negotiation about the price and the signing of the contract in the third stage. The fourth stage is the post acquisition stage, concerning the completion of the deal and the integration of the two companies.

Stage 1	Stage 2	Stage 3	Stage 4
<i>Strategic review</i>	<i>Signing Head of Terms</i>	<i>Negotiation</i>	<i>Post Acquisition</i>
<i>Search for company</i>	<i>Due Diligence</i>	<i>Signing of the deal</i>	<i>Completion & Integration</i>
<i>Approach company</i>			

Figure 3.1 The M&A Process (Based on Galpin, T., 1999, p. 8)

The different items of the pre acquisition stage, negotiation and signing of the contract and the post deal acquisition stage will be explained as described by Howson (2003).

The pre acquisition stage is divided in five different items. The first item in the pre acquisition stage is the strategic review. Acquisitions are a very risky business. Before deciding to acquire a company, the buyer has to consider if it will fit in the company at that moment. Acquisitions have to be seen as one of the last options to achieve strategic objectives looking at the high failure rate of all acquisitions. The acquisitions have to add something extra to the core business with a specific goal in a long-term future perspective.

The second item in the pre acquisition process is to search a potential target company. If an acquisition is a logical step forward to create growth in the future, a systematic search for acquisition targets is necessary. The ideal target companies have to be characterized by writing down a certain criteria standards for the types of companies that should be looked at. Collected data and basic information will be compared to the criteria standards. The potential companies will be connected to the business strategy and there should be a priority ranking.

After searching and finding a potential target company, it is necessary to contact the target company and this is the third item of the pre acquisition stage, approaching a company. To approach a company is a difficult phase in the acquisition process. The reactions can be very different from friendly to offended or other companies refuse any contact, in the beginning, while they are finally open to negotiate. Of course these reactions vary and depends from person to person, nationality and

industry, for example. There could be a long time involved, from the first approach to the final deal.

After approaching the target company, the companies agreed to be interested in a potential deal and the preliminaries to negotiation start. From this moment we start the second stage but it is still the pre acquisition phase because the deal is not signed yet. The head of terms have to be signed. In the heads of terms there is a document of agreement to negotiate the purchase of a company. It is a non-binding agreement with the main points of the parties before a transaction phase and shows the basis, which they are prepared to proceed. Signing a heads of terms means that both parties have a serious interest and are ready for further negotiation. Both parties show that there is an interest, making an agreement to continue the transaction.

The last item of the pre acquisition stage is the due diligence. As explained in detail in this chapter, a due diligence is a way of investigation and analysing a company on specific issues. Usually the main focus is just on the commercial, financial and legal aspects. It is a way of working to get more knowledge about the target company and makes the people who are involved more understanding about the business, which is being bought. Is the company getting what it thinks it is buying? Due diligence should be a comprehensive analysis of the target company's business, its strengths and weaknesses, its strategic and competitive position within its industry (Kissin & Herrera, 1990). Due diligence is focused on the potential risks for the company and the results could be useful arguments for the negotiation process.

The third stage in a merger and acquisition process is about the negotiation and finally an agreement. In this stage it is about selling the company and purchase negotiation. When the due diligence reaches the

finishing touch, the next stage is about finalizing the deal in detail. The Due Diligence can give extra arguments for negotiation about the price and to identify risks, which can lead to a guarantee by the seller to compensate specific losses. The Due diligence is over and completion is a fact when the buyer and the seller sign the sale contracts.

The last stage in a merger and acquisition process is the post-acquisition stage. Signing the sale contract is often seen as an end of it all. Everyone was excited and challenged during the negotiation process but too apathetic to manage the integration process. After the deal is signed a time of hard work starts to take advantage of the company which has been acquired. Because of the excitement of the deal, this phase is often overlooked or underestimated. The due diligence should play a major role to create a post-completion plan but in practice this is not taken very seriously or even ignored. The deal is signed and the integration of the target company in the acquiring company starts.

3.6.3. Due Diligence Focus on a Specific Item

A company is based on several parts, before buying a company each part has to be analysed. In the due diligence process there are three main due diligence topics: the financial due diligence, legal due diligence and commercial due diligence, as explained by Howson, 2003.

The main due diligence topics are the three most important items that have to be analysed before the acquisition or merger contract is signed. To be clear, a short explanation of each due diligence focus will be given in this chapter. A further explanation or information concerning each

specific item where the due diligence is concentrated on, can be seen in the appendix.

The first important due diligence is the financial due diligence that is seen as one of the main parts of due diligence in the merger & acquisition business. A financial due diligence is carried out by an accountant; the accountant is doing his work, most of the time, by analysing the figures of a target company before a deal is completed.

A financial due diligence is a way to find out how the target company performed in the past but it can also create a good argument in the negotiation process, to reduce the price. The accountant may also connect his view to other areas like; Will this company fit in the strategy of the acquisition company or are there any synergy advantages which can be taken? But the main purpose is to make sure that there are no unexpected surprises that might be big enough to break the deal.

The second item is the legal due diligence carried out by lawyers. The reason is that the legal due diligence concerns aspects of law and contracts. The Legal due diligence takes a central place in the merger or acquisition deal because it forms a basis for the sale or purchase agreement. The lawyers will also look at the legal structure of the company.

The third important item is a commercial due diligence. A company will not be acquired for its past performance but to realize profits in the future. In commercial due diligence it is all about looking forward to the future. Commercial due diligence is the investigation of a company's market, competitive position and tries to put the two strategies together and look at the future prospects.

In the commercial due diligence it is important that the purchaser gets a clear perspective and confidence that the deal will work out and the strategy will fit. Cost saving aspects is often an item that is involved. Synergy advantages or economies of scale in R&D, sales and distribution capability are important reasons why companies choose for an acquisition.

The due diligence takes place in the pre-acquisition stage. A different point of the commercial due diligence compared to the financial and legal due diligence is that commercial due diligence focuses mainly on the post acquisition process, to achieve growth in sales, profit or market shares. It should try to make a combination between two strategies of two different companies.

Another due diligence that is often mentioned as “not really important” compared to the financial, legal and commercial due diligence is the human resource due diligence. Because the human resource due diligence is important during our dissertation and reflect some explicit information it might be more clear to give a short explanation about the human resource due diligence.

In a human resource (HR) due diligence it is about analysing and investigating the culture of the company and its employees. The human resource due diligence is often underestimated and the findings are often not integrated with the rest of the due diligence. This could be the cause why so many merger & acquisitions fail. The human part in a due diligence seems to be very important; the employees of two independent companies have to work together from one day to another. The employees are the key people between the management and the customers and are able to influence the performance of the product or service. If you ignore the employees in a merger or acquisition process a problem will arise.

When the employees receive the news that a merger or acquisition is a serious possibility in the company they work for, a high uncertainty between the employees will arise.

The human due diligence is often presented from a legal point of view because there is very much legislation involved, such as contracts with unions and employees.

The planning of the HR due diligence depends on the reasons for the deal, what the goal is, what the company want to reach, the type of business and which market is involved.

In a HR due diligence it is hard to interpret what the important issues are because no two deals are the same and at least no two persons are the same. Standards that generalize the human due diligence are hard because there are no two companies exactly the same.

3.6.4. Different Types of Due Diligence

There are different purposes for buying or selling a company and there are also different types of due diligence. As described by Howson there are five different types of due diligence, a buyer due diligence, vendor due diligence, due diligence in public bids, due diligence in public offerings and due diligence when buying from the receiver. Because the buyer and vendor due diligence is the due diligence which is most used in the M&A business, a short and clear explanation will be given. Further information about the vendor/buyer due diligence or an explanation of the other variants can be seen in the appendix 2.2.

The most common and traditional due diligence is the Buyer-Due Diligence focused on the purchase of a private company. A company is interested in a specific target company. After making the due diligence the company may find out if there should be a purchase or not. The explanation of the due diligence as explained above in this chapter is mainly focused on the buyer due diligence type.

The vendor due diligence is the name for a due diligence that is organised by the owners of the company who try to sell the business. It is a preparation for selling a company. Because the vendor due diligence is organised by the seller there are different purposes and issues involved, compared to the common due diligence carried out by the buyer.

A vendor due diligence is often to control the information flow and to create a negotiating advantage and keep the price high. But there are other important reasons to carry out a vendor due diligence, trying to hide all the bad news and negative aspects for the buyer, so discovery of problems later is not used to negotiate a lower price. It may stop management, advisers, customers and suppliers for asking “difficult” questions.

The main focus of a vendor due diligence is to raise the price and to let the company ‘acting’ better than it is in reality. The reason for the seller might be that the buyer will otherwise discover problems that will help them to negotiate a lower price or cancel the merger or acquisition. Useful advice for the buyer is to be really careful when someone presents a vendor due diligence because you cannot be sure that some hidden aspects are not in the company.

3.6.5. Different Focus of Due Diligence in Different Types of Deals

The term due diligence is often used to analyse and investigate a target company before merger or acquisition. But the process can also be used in other business transactions, for example investments by investors, management buy in & management buy out, as a requirement from the bank before getting a loan, joint ventures, strategic alliances and finally to privatize or denationalize a public company into a private company. A due diligence is used for all transactions when a complete investigation and analysis of a target company that will be acquired or merged by another company is necessary.

Chapter 4

A Critical view on the existing Due Diligence model

This chapter contains the critical points about the common due diligence model which has been found by literature review. Here are the main elements: the due diligence described from the human perspective, planning of integration, involvement of consultants and involvement of company own employees. The chapter concludes with the critical reflection of cultural issues.

4. A Critical view on the existing Due Diligence model

4.1. Due Diligence from a Human Resource perspective

Due diligence is the complete investigation and analysis of a target company that will be acquired or merged by another company. There are different ways to improve the due diligence model to analyse a company from different views. An important comment has to be made that the due diligence is mainly focused on financial and legal issues. The due diligence concerning Human Resource (HR) issues is only mentioned a little at the end of the due diligence process. The benefits of Human Resources due diligence are often underestimated and its findings are often not integrated with the rest of the due diligence (Howson, 2003). Besides, a human resource due diligence has too often a financial and legal background from a specific human point of view. The human

resource due diligence is mainly focused on issues concerning the data protection act, payroll information, staff terms and conditions, industrial relations (union contracts) and relations with statutory bodies.

The main factor for success in a merger & acquisition is a clear communication but this is an underestimated part in the human resource due diligence. Communication does not exist without human beings and the HR department may have an important role in this process, because it has to deal with the human factor within the company. Most post merger problems develop from the lack of sufficient information problems that could be avoided by communication with acquired personnel throughout the whole acquisition process (Marks, 1982). The communication issue could be an important explanation why so many M&As fail nowadays.

It is clear that most mergers & acquisitions fail, but the exact failure rate differs from source to source. Most researches conclude that between 50% and 80% of all M&As fail, depending on the explanation what a failure is. Quoted merger failure rates vary from 50 % to 80 % depending on the industry and measures used, as described by Angwin. Michael Porter made a long-term study of 33 successful companies during a period of 36 years and concluded that over half of the “unrelated” acquisitions were later divested (Galpin, 1999).

By analysing the causes of failure there are often human or cultural issues. After reviewing these facts there is a huge contradiction. Why do companies pay most of the attention during the due diligence on financial and legal aspects while most of the M&A fail because of the human and cultural factor? If cultural considerations are left unattended, the repercussions can create significant barriers and problems for the merged entity and its management. (Buono & Bowditch, 1989).

4.2. Integration Planning

The due diligence is mostly focused on analysing and investigation and is used as a helpful tool during the negotiation process with the main aim to sign a contract in the end. After signing the contract most of the people, who are involved in the due diligence process, are happy and in an atmosphere of celebration. But time is money and drastic measures have to be taken immediately and that is why every company should make the post acquisition planning at an early stage. The prevailing wisdom is that the first 100 days is a critical period for post-acquisition success and top executives are in the best position as key informants on the process as well as being the main representatives of their firms to make the judgements (Angwin, 2004).

To operate successfully after the deal is signed, integration planning is necessary. Too often, integration planning is seen as a part that can be done after the deal is signed. Actually, due diligence does not show how to integrate at all. Many mistakes and problems arise if the integration planning is seen as an aspect for the future. The managers often concentrate on other issues during the due diligence process but the integration planning has to be mentioned as a high level of importance and has to start in the due diligence stage as early as possible. The due diligence should play a major role in shaping the post-completion plan: the due diligence should be seen as an integral to post-acquisition planning. (Howson, 2003) One of the reasons therefore is that the integration process is the real source of value creation in acquisitions (Haspeslagh & Jemison, 1991) Value creation is the important objective in successful acquisitions (Salama, Holland & Vinten, 2003) To realize value creation many things have to be changed and this is reason enough to start with a planning in an early stage. A study by the Boston Consulting group found that, fewer than 20 percent of companies had considered the steps

necessary to integrate the acquisition into their organizations (Galpin, 1999). Before making the post acquisition planning it should be clear what has to be done during the integration phase.

If it concerns only the concentration on the HR part, several divisions have to be analysed and there are some main points that are often ignored or forgotten. These include, for instance, how to blend and manage two or more organisational cultures, several sets of policies, practices and procedures; how to manage the transition and focus on future organisational needs; how to design the new organisation and its jobs; how to manage redundancies; how to keep business as usual functioning; how to manage and motivate staff including senior management and how to realise synergies between two organizations and thus become more efficient (Buono et al, 1985; Cartwright & Cooper, 1994)

The integration planning should be based on two fundamental points. During the integration process there are two organisational variables particularly relevant in the acquisition process (Datta & Grant, 1990; Datta, 1991). The first is the motive for the acquisition (strategic fit and decision making process); and the second is the process of implementation (including the acculturation process). Implementation strategies, if not handled well, may prove to be detrimental to organisational effectiveness, particularly if it leads to high levels of acculturate tension and conflict (Buono & Bowditch, 1989). These two variables have to be analysed seriously at an early stage in the integration planning, because the whole integration strategy and probably the corporate strategy will be based on the motives for merger or acquisition and the implementation strategies.

4.3. Involvement of Consultants

The companies are during the due diligence process often too dependent on the arguments and advice of “professional” experts. Consultants are important and necessary because of their knowledge and experience but very much focused on a high fee. This fee has to be paid by a “satisfied” client and that is for most consultants reason enough to mention only the information that the manager and owner want to hear. It could also be possible that the consultants base their opinion and results on their own best financial opportunities in the long and/or short term.

To avoid this problem there is an option that the buyer carries out the due diligence with his own internal resources. Doing it yourself has the advantage of saving money and it also develops an in-house acquisition expertise. Some even claim, using in-house due diligence teams improves confidentiality (Howson, 2003). Focusing too much on the money savings point of view makes no sense; finally you get what you pay for. Consultants involved in the merger & acquisition are important and can give advantages as well. The reasons why buyers use professionals are their experience, expertise, judgement, resources, access and speed. During the due diligence the buyer’s company should use consultants only as global guides when necessary.

The involvement of company’s own employees is important for communicational reasons and to show them what/how they are going to work in the future. Using consultants will work out positively if the buyer company uses the four rules of taking the control, according to Howson (2003). First, the buyer controls the process, not the adviser. Second, advisers are there to give advice and not to make decisions. Third, the buyer must not be unrealistic about demands. Finally, the fourth rule is that advisors must be properly briefed otherwise they will not do what is

expected. The buyer company must think carefully about what information or analysis is needed (Howson, 2003). Using these rules with advisers in combination with the involvement of company's own employees, working together in teams may create the most advantages and the best results.

4.4. Involvement of own company employees

Involvement of the company's own personnel from both the companies in the whole M&A process is often underestimated or ignored. If the company's own employees are involved it is often too late in the process. The employee has to work with it on a daily basis and in the future and has exact knowledge about the strategy, structure and (company) culture as it was before the merger or acquisition. As mentioned above, it might be a good development during due diligence stage to involve employees as early as possible.

It is important to make teams of the company's own employees and consultants together; it could be an ideal combination of company knowledge and M&A experience. The key word in the whole M&A process is communication between employees and management. In the turmoil, caused by the acquisition, management neglects communicating with employees about the acquisition or provide ambiguous communication, and workers' anxieties produce many unanswered questions. When there is unclear communication, rumours are easily created by the employees, often in a negative way. Rumours often have the effect of adding fuel to the workers' anxiety rather than reducing it (Mirvis & Marks, 1986).

Clear communication, honesty and respect for employees and culture are an important reasons to keep key people and key talent in the company. A company should never make expectations that cannot be realized. Often

people in both firms will be seriously troubled about how the acquisition may affect their personal careers (Pritchett, 1997)

As merged companies just integrate separate organizations, they can often dis-integrate individual careers and reduce opportunities. A strong feeling of uncertainty may affect the collective atmosphere within the company and a reaction by each individual. Insufficient information causes uncertainty and ambiguity (Kahn, 1964) Job security is cited as the most important factor for employees during a merger (Schweiger, 1987). The threat of becoming redundant and fired in a corporate combination lingers on long after its announcement (Larsson, Driver, Holmqvist & Sweet, 2001) The extensive literature on managing communication in periods of organisational change, shows that frequent and honest communication to staff about the merger has a stabilising effect (Schweiger & Denisi, 1991).

An employee issue as well a question concerning the integration planning is the collection, identification, analysis and investigation of the key people and key talent, known as the 'high potentials' and involving them in the process at an early stage to keep them in the company. The key people can make or break the whole M&A, because having the right people is rare and putting them on the right place is sometimes a difficult decision because only the future can tell what the final result will be. For employees uncertainty can cause a panicky reaction and result in a search for another job to secure themselves and their family. From a behavioural psychological perspective, sustained uncertainty amongst workforces is seen as one of the most corrosive elements of the soundness of post acquisition integration (Buono, Bowditch & Lewis, 1985,1989; Mirvis & Marks, 1992). Faster integration then may reduce the length of time for employees to experience uncertainty, as well as reduce the exponential effect of the rumour mill (Angwin, 2004).

To create a feeling of importance to the employees in their work and a feeling that the management is involved is very important. By using a clear communication system and information flow makes them work harder. If the management is interested in each individual and treat him or her with honesty and respect, by explaining a clear strategy, it will avoid uncertainty. In this case the management plays an important role, as the managers have to make decisions and have to lead the whole operation. A frequent reason for disappointed results is that the management in the acquired firm was not as strong as expected. It is vital, as mentioned earlier, to collect, identify, analyse and investigate the key people and key talents.

4.5. Cultural issues

The last few years, business around the world is more common than before. Because of the globalisation, International merger & acquisitions increase in popularity. Talking about cultural issues is not only between two different countries. Cultural issues can be explained in two different ways, the first is culture as a different way of thoughts in beliefs, values and norms in a certain group of people. The second is the organizational culture and concerns the values and beliefs of a certain group of people within one company. A case survey of 61 M&A indicates that companies are indeed learning to increasingly utilize strategic combination potential and effective organizational integration to realize significant synergies (Larsson & Finkelstein, 1999). The acquiring companies see more and more the importance of combination potential and organizational integration, the key in these issues is the culture of different nationalities and corporate cultures. Differences in organizational cultures as well as national cultures can make the integration process between the two companies very difficult.

Cultural issues are highly underestimated in international M&As because the main focus is on the synergy and economies of scale. Sometimes it looks as if, the management expects that people do automatically work together. But one of the first lessons in the M&A business is that no M&A is the same and each individual is different. The question is, why lay the reason for a failure, down in a people or cultural factor, much of the failure found in acquisitions has been explained by cultural clashes (Buono & Bowditch, 1989). It could arise because of an underestimated or even ignored approach during the early stages of integration (planning), so people become uncertain and run away. The human factor is a hidden but valuable ingredient for merger success, but it is well known that mergers which seem a good economic/strategic fit in the planning stage fail at the implementation phase for reasons of cultural mismatch and integration problems (Cartwright & Cooper, 1995).

If the companies have to deal with cultural issues the main point is a highly developed knowledge, at the way of behaviour in a foreign country. A greater knowledge leads to a greater understanding of the risks. The key factor is to develop the knowledge, communication and the flow of information. This might be a huge challenge in every merger and acquisition. Especially in cross national mergers and acquisitions it might be important to pay attention to the development of knowledge, communication and the flow of information. Cross national mergers are particularly interesting because they bring together two companies with different organizational cultures that are themselves nested in different national cultures (Larsson & Lubatkin, 2001). Many post-merger problems develop from lack of sufficient information (Marks, 1982). Especially in cross-cultural acquisitions it is a high priority, there is not only the corporate culture that can create obstacles, but also differences in national culture and language (Risberg, 1997). The cross-border acquisitions are more risky than domestic ones (Angwin & Savill, 1997). In a recent study

by Datta and Puia (1995), it is confirmed that 'cultural fit played a key role in the success of cross-border acquisitions' (Angwin & Savill, 1997).

There is one surprising conclusion in the research by Angwin and Savill, 1997. After interviewing some executives, they found that neighbouring countries were often cited as being the most problematic in cross-border acquisitions (Germany for Eastern Europe, France for Germany, Switzerland for Italy and Sweden for Norway). They explained that it might be the case that companies are more aware of the difficulties of their neighbouring companies, perhaps from the greater experience of trying to acquire there. A greater knowledge leads to a greater understanding of the risks, rather than greater confidence that those risks can be controlled (Angwin & Savill, 1997).

Cultural clashes emerge during the pre and post acquisition integration periods. A host of other expected and unexpected problems may lead to breakdowns in communication and a divisive "we-they" mentality (Buono & Bowditch, 1989).

Culture clashes are looked as a function of different values which create ambiguity; communication in turn, is used to mediate the different values in order to prevent the clashes (Risberg, 1997). Communication seems again to be the key word in the merger & acquisition process to be aware of the problems and try to understand them because of a fluent information flow.

Corporate culture may be a rather amorphous concept, but its influence is pervasive (Pritchett, 1997). A company can be seen as a family that celebrate happiness together and cry together during periods of disaster. Each organization has its own values, traditions, beliefs and priorities. A company is a social environment where people spend more time together

than with their own family and friends. An organizational culture helps establish the norms and unwritten rules that guide employee actions. If two companies come together from one day to another, a clash between two cultures may exist. That is why a part of the integration strategy should be aimed at cultural issues.

During the due diligence period, the management can undertake a cultural assessment exercise. This is a strategy to minimise culture clashes between two companies. The cultural assessment can be conducted by external consultants and aimed to uncover perceptions of each other's groups of people. After the cultural assessment outcomes will be analysed and measures can be taken where necessary (Salama, Holland & Vinten, 2003).

Chapter 5

The Altered Due Diligence Model and Process of Integration Planning

After an intensive literature research we found out, that during a due diligence, no proper integration plan is done. To solve this kind of problem the common due diligence Model has been altered. This chapter also includes the analyses of the HR department as well as the example of an integration plan, which includes advice of how to solve the criticised issues from the chapter 4.

5. The Altered Due Diligence Model and Process of Integration Planning

5.1. The Reasons to Alter the Due Diligence Model

In the past years, M&As became a common way to enlarge the business, even if almost 83% of all amalgamations were unsuccessful (KPMG, 1999). In many cases this has been based on the fact of an inaccurate human and cultural due diligence. It stands to reason, to analyse the existing due diligence model. In the following chapter, which is based on our research, we tried to develop a more detailed due diligence model. Even if such an altered model might be more cost intensive and time consuming, because of a more detailed analysis and involvement of more staff, we believe that this is going to be compensated in the future.

Most aspects of human and cultural due diligence are not as quantifiable as in a financial due diligence. This does not mean that they are less significant. In many ways they can be more important and critical to the success of the merger than the financials. During M&A negotiations and integration, attention and energy must be devoted to the workforce issues. An efficient human and cultural due diligence with a critical post deal integration era, will help to focus the attention on what will become the core of an integration plan.

By studying the common business literature and reviewed journals, no model could be found, which described our perceptions for a more efficient human and cultural due diligence. "Redefining the Process of Due Diligence" described by Galpin and Herndon (1999) seems to us as the way in the right direction. Hereby they explain their enhanced due diligence process as a process which "should begin during the earliest possible stages of locating the target company, and it should continue through negotiations and into integration planning" (Galpin & Herndon, 1999, p. 21). By describing their due diligence process, they added their "nontraditional components" to the deal flow. The first component considers the basic integration risk to see if it is possible to integrate the companies as it is necessary to become successful. The second "non-traditional component" is described as cultural risk, which requires a comprehensive cultural analysis for a well prepared integration plan, to overcome the cultural differences. The third and final enhanced due diligence component is about human capital risk. Here they discuss the question how to align and motivate the people (Galpin & Herndon, 1999). As written above, to fulfil their due diligence process they expand the due diligence from the second until the fourth stage. This means that they start in the pre-deal signed era and end up during the integration, after the deal has been signed. This diverge from the normal way of having in stage 1 a search and approach, in stage 2 the terms of head and the due diligence,

in stage 3 the negotiation and completion and finally in stage 4 the post completion which includes the integration of the involved organisations.

This process may already be seen as an approach in the right direction. Also Galpin and Herndon (1999) mention, that “first, due diligence analyses must be completed and second, the parties need to begin planning, but not of implementing and integration of the two businesses” (Galpin & Herndon, 1999, p. 74). Similar to that are the objectives of Howson (2003, p 106) who wrote:

- Identify and prioritize the HR issues that need to be dealt with during the integration
- Identify and prioritize the HR issues that need to be dealt with post integration

But by studying his intention about the mentioned points, we could not find that they also include the planning of the integration steps. And this is exactly the crucial point. After studying the main reasons of failure and comparing the criticism of several researchers, as done in chapter 4, we believe, that to avoid more problems which may come up in the future, in the due diligence must be a more detailed integration planning about human and cultural issues as well as a proper communication system. So we think that this should be one further essential step in a due diligence. Knowledge about the plan of integration may be essential whether or not, the buying company is going to buy the target company or at least as a main point for the negotiation. Therefore, we changed the process into our altered model as explained in the following part. But, before explaining the altered model, it must be clear what is understood with the point of planning. Hereby, the buying company should know how it believes to integrate the two companies into one. For that part it is often spent a high amount of financial resources to solve the problem but it still does not work

properly. Competition between the employees of the two companies, lack of trust and to secure information and communication advantages, are often big existing problems between the companies. To get a clear picture about such kinds of problems, we believe that the management has to know about it before the deal is signed. Therefore, we put the existing ideas about identifying and prioritizing the integration issues in a planning part of the human and cultural due diligence.

5.2. The Altered Due Diligence Model

In fact, we just focused on the human and cultural part of the due diligence process, the parts like financial, legal, distribution and market, production, and other (Howson, 2003), we kept them as described in literature.

By altering the due diligence model, we based our ideas on the research we did and decided to form it from the due diligence points, mentioned by PWC (2005). We also decided to put the point of the human and cultural due diligence together. We think there is a very high relationship between these issues. For an easier understanding, the following graphic has been created. To the issues of common HR due diligence, we added the part of planning, as a more detailed analysis, by altering it to the human and cultural due diligence.

The structure of the common due diligence is not new. Since planning should be part of the due diligence, we added the planning of integration as an essential aim of due diligence, to come up with the altered model. The following part will explain how to understand the points of the altered human and cultural due diligence model and will give advice, how it could be transferred into praxis. Furthermore, the points of information combined

with communication and the integration of cultural due diligence have been added to the points of PWC. The reason to integrate these two points into the human due diligence is based on facts that these issues are highly connected with each other and so the acquiring company is able to create a more meaningful due diligence.

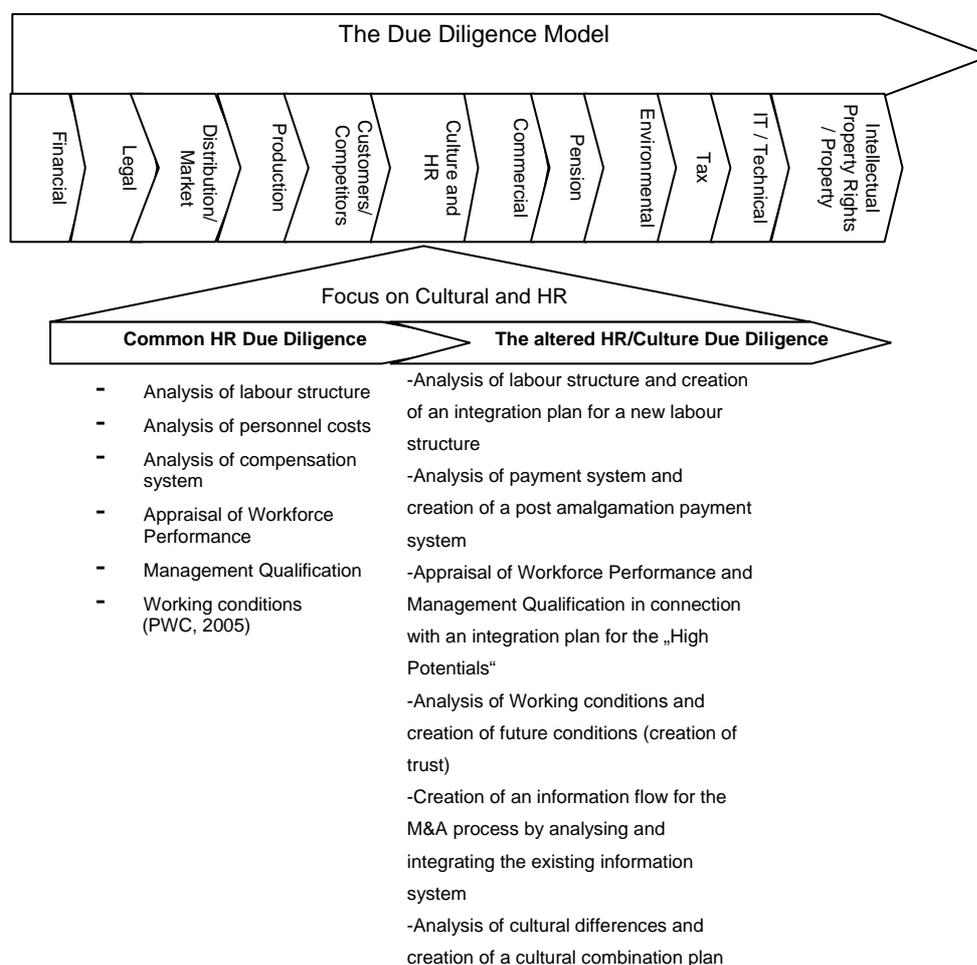


Figure 5.1 The Altered Human Resources Due Diligence Model

5.2.1. Analysis of Labour Structure and Creation of an Integration Plan for a New Labour Structure

The analysis of labour structure is an existing part of the common human due diligence. But to solve the future problems, putting the different labour structures together, there has to be a proper analysis of an integration plan. Analysing the labour structure is understood as the way workers are internally aligned and connected to each other. What kind of organisational structure exists in the company? Is it a flat or high hierarchy? How is the structure of the departments and how are they connected to each other? Who reports to whom? Are they organised in a union? As mentioned by Howson (2003), it can be either a deal or an integration issue, whether or not a company is unionized. In companies with years of repelling union representation a strong union representation may not be what is wanted.

Planning the integration of the labour structure means to analyse the questions above and create a plan to find out how to combine the two company structures. Therefore it has to be figured out how the workers can be connected to each other that there will be a higher value for the company? How will the reporting structure be planned in the new company. This will also be a point to discuss in the planning of communication. It has to be solved in the way that finally the management has a clear knowledge about how the future structure of the company may work.

A further issue and as important as the points before, is the planning of workforces reduction. This is one of the topics which unsettle staff on each level of the organisation. Thus employees are commonly concerned not only with job security but also with how selection decisions are made (Bryson, 2002,). The planning of this is a very important part which has to

be clear and well prepared to be able to form an appropriate, frequent and honest communication to avoid concerns and rumours among the employees. This kind of communication during the M&A process, which will also be discussed later on, has a stabilising effect (Napier, 1989; Schweiger & DeNisi, 1991).

5.2.2. Analysis of Payment System and Creation of a Post Amalgamation Payment System

The knowledge about the payment system of the target company is not only important to the financial point of view. It is also a question of how to combine the systems of the different companies and create motivation. At this point we try to combine the issues personal cost and the compensation system based on the fact, that those two points do exist and depend close to each other. Therefore the management has also to know the reward system. Are rewards tied to performance? Are people accountable for the work which they perform? Are there any unusual terms and conditions, enhanced redundancy costs or golden parachutes (Howson, 2003).

The planning for a post amalgamation payment and reward system finds out whether there will be a conflict in the future if there is one single system or not. The future system of payment has to be planned carefully. An error in the system can destroy trust and motivation on one side or both sides of the new organisation.

For the management, detailed information about the reward and payment system can be important points to negotiate and especially to find out, how expensive this part of the deal is going to be and where the facts of retrenchment are.

5.2.3. Appraisal of Workforce Performance and Management Qualification in Connection with an Integration Plan for the 'High Potentials'

The skills, educational backgrounds and competencies that are brought by the staff of both companies are a very important knowledge, when a deal is prepared. Sometimes the specific knowledge of a business might be one of the main reasons why a company is going to acquire another company. In fact that performance and qualification of the workers and the management has a high influence on the future performance of the company, this point has to be prepared very carefully. The M&A process is mostly just focused on the knowledge of the management and unfortunately not on the broad knowledge of the work force (Risberg,1999). Also if the management is mostly just working in the business to business part but the workforce are handling the daily business, there has to be a higher focus on whose key knowledge. These points have to be clearly analyzed and combined to a post acquisition planning. By analyzing the management qualification, it has to be asked, how competent the management team of the potential partner is and whether or not, some or the entire existing team serve for the management team of the new organization. The planning for the post-deal area must include a system which secures that the high potentials of the acquired company will stay with the new organization. Therefore a financial attraction, positional upgrading should be created, or at least a declaration for job security. Nevertheless, after the acquisition process, the most overlapping jobs exist in the overhead. To guarantee the effect of synergy it must be clearly analyzed which managers due to their qualification and knowledge about the potential partner should be tied to the new business. Hereby an organigram of the future organisation might help to communicate conceivabilities about the prospective positions. Thus, uncertainties and ambiguities might be avoidable.

Analysing the workforce performance means to know who is doing the basic jobs of the acquired business. “Employees their experiences are underrepresented in acquisition research” (Risberg, 1999, p. 3). As mentioned by Risberg (1999) and before in the text, the issue of employees is mostly step motherly treated. Depending on the business, these people can be the main contact to the customer and with it an insurance for the future performance. Also, by implementing higher developed technology, there might be the problem of older spare parts and different technology by future maintenances. In accordance to Risberg we do believe that there must also be a clear analyse in a due diligence of the employees’ performance and qualifications to get a clear and detailed picture of the acquired business.

5.2.4. Analysis of Working Conditions and Creation of Future Working Conditions (Creation of Trust)

The conditions of working can be the key to a successful and efficient business. Knowing about the working conditions means to know how the employees have to, or can fulfil their work. Therefore it has to be analysed in which way the conditions will change and how much it will cost (Howson, 2003) and if it will be compensated by the positive effects of the workforce. In “western” international M&As, most of the cases have an equal standard of working condition. This is mainly faced that there are existing laws which regulate working conditions that have to be fulfilled. The acquisition of a company from other parts of the world may come up with a high difference of working conditions. They have to be compared with the condition of the other organizations and it has to be analyzed what can be changed. Whether there is a change for new working conditions, which will be a combination of both or there is a decision for existing conditions in one of the companies. It must also be analyzed if it

might be more efficient if both of them remain. Some companies do, by acquiring a company from abroad, implement their higher developed conditions of working to show the employees of the new organization, that they believe and invest in the future of the new corporate business (Adidas-Salomon, 2004). Nevertheless in this point the new organisation has to be aware of the difficulties of enviousness and dissatisfaction, which may come up if a higher standard will be implemented to the potential partner. In some companies the working conditions go together with the company culture. This will be discussed later by analyzing cultural issues. Nevertheless, good and human orientated working conditions may also mean the beginning of creating trust.

5.2.5. Creation of an Information Flow for the M&A Process by Analysing and Integrating the Existing Information System

The base of human being's existence, the possibility to communicate, is the beginning of experience transfer. Concerning this, by doing business the communication of information and knowledge is going to be a basic point. During a time, when a company is in the process of an M&A, the flow of information and communication becomes a very important issue (Elving, 2005; Lewis, 1999,). In most of the cases the process of information is mistreated. Information is often understood as a tool of power and influence and the hold of information is often not going to be treated, as it would be most efficient for the company. But they are mostly treated as they might be personally useful for the manager.

As shown, the management of information can be a powerful instrument, which should be used in the most efficient way to reach the company's target. Therefore it should be used to create trust by informing the

employees about the newest changes in the company. Respect and honour are very important issues in this process, especially at the point of job erase or future opportunities. By having a clear and loyal structure, the lost working performance can be minimized. This also includes the information about a compensation system or the effort the company is going to invest to help the employees into a new job.

As mentioned above, the management position has an essential influence on who is getting what kind of information. Consequently a clear plan has to be developed, which shows the steps of information flow. Further issues of the information process should be the customers and the duty to inform the public which is arranged by regional laws. In addition to that, a further point of a proper information system is the publishing of information of corporate governance, which is also depending on specific laws.

The existence of rumours is the declaration of a failure of the existing information system. Next to the information scheme during the M&A process there must also be a planning of the information communication process for the future business. For that reason, it must be asked: What can be used from the existing systems? What has to be changed and how can it be implemented? This question about the flow of information between the departments and the applied information system has to be answered. The importance of a good information and communication system should not be underestimated since it can also be very helpful in other situations of difficulties to keep everything under control.

5.2.6. Analysis of Cultural Differences and Creation of a Cultural Combination Plan

Human resources and performance problems in M&As are often attributed to cultural clashes (Larsson & Riesberg, 1997/9). As mentioned by Larsson and Risberg, we think, that human and cultural due diligence has to be done in one and the same process. This does not mean a reduction, but the focus on these points. By speaking about culture problems, we talk about different views. There can be a regional depending on cultural points by cross-border and domestic amalgamations on one hand and the cultural issues of separate company cultures on the other hand (Larsson & Risberg, 1997/9).

Accordingly, finding parallel organizational cultures, management styles and more has become a common solution for avoiding employee dysfunctions that could destabilize M&A performance (Larsson & Risberg, 1997/9; Datta 1991; Davis 1968). In other words, cultural similarities are accentuated as other strategic variables for the choice of a potential partner in addition to more traditional variables like various synergy potentials (Chatterjee, 1986).

By analyzing the corporate cultures, Davis (1986) explained five areas of potential conflicts in business style, as company philosophy time/return attitude, dispositions of profits, delegation of authority and functional emphasis (Larsson & Risberg 1997/9, Diven 1984). By analyzing these points it has to be mentioned, that the management of cross-border M&As are more aware of the cultural differences than the management of domestic acquisitions (Larsson & Risberg, 1997/9). This is based on the fact that managers of regional acquisitions mostly believe that they acquire the same social and cultural structure but often there are already cultural differences in one country. In such M&As the cultural clashes come up in

the differences of corporate, industry, business of perhaps regional levels which are mostly overlapped by the national factors such as legal conditions, taxes, political and governmental issues which are equal. Here it has to be mentioned, that together with the human resource issues, the cultural due diligence has to get a higher attention. In cross-border M&As, problems of cultural and environmental nature are exposed (Larsson & Riesberg 1997/9), as well as the inconvenience of differences in the language (Risberg, 1997) where in some cases a language must be chosen which is nobodies first language. The analysis and planning, which should be done in a due diligence, must focus on how a cultural clash can be avoided or in the best case, how these cultures can be combined. Therefore the research has to focus on findings of similarities between the combining companies (Jemison & Sitkin, 1986; Lubatkin, 1983), for example, similarities in management styles (Marks, 1982) and corporate culture (Nahavandi & Malekzadeh, 1988, Risberg, 1997). Sometimes it can also be useful not to cover one of the business cultures, but to find a way how it might be possible that both cultures can exist next to each other. "Unfortunately, the acquired company is often forced to adapt to the acquiring company's culture and routines" (Risberg, 1997, p. 258). The reason that an acquired company should be conform to the business culture of the buying company is possibly grounded on the temporally existing theories, which do not consider cultural differences (Risberg, 1997). The theories account on the matter that to live one equal cultural style, helps to homogenise the new organisational work. How the process of integrating different cultures may look like is explained by Risberg (1997) and Martin & Meyerson (1991).

Hereby, three perspectives of post acquisition combinations are explained. The first perspective is named integration because it accents consistency among cultural appearances and among cultural members. Using this view for M&As means that the members of the combining companies deny

the differences between them. As mentioned above, cultural issues are mostly just traded by the top management, it is more likely that they deny the differences, forcing the two companies to become one with a homogenous culture (Risberg, 1997). Nevertheless when a company is driving such a strategy it should try to find out how deep the equalisation has to be done and then try to fulfil it.

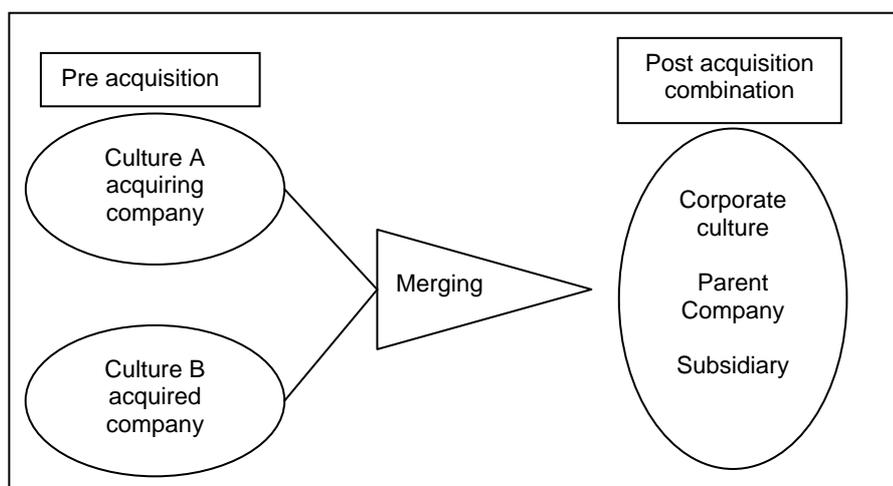


Figure 5.2 Acquisitions viewed from the integration perspective²

The differentiation point of view as the second perspective does not deny ambiguity as it is considered in the integration perspective. It accentuates subcultures and the differences between them, for example the difference between marketing culture and engineering culture, and does not even acknowledge sources of organization wide agreement (Martin & Meyerson, 1991). “Subcultural differentiation ‘fences in’ these clear differences in perspective. Each subculture becomes an island of localized lucidity; ambiguity lies only in the interstices among the subcultures. The differentiation paradigm [perspective] channels ambiguity as swift currents create channels around islands” (Martin & Meyerson, 1991, p. 112). During a M&A process, the subcultures are represented by the two potential companies. Instead of disclaiming that differences exist between their

² Risberg, 1997, p. 260

cultures, they concentrate on the varieties. Within the involved companies they emphasize similarities, while the differences will occur in the interaction between the two companies (Risberg, 1997). This strategy needs a very careful and clear planning, which starts in the due diligence, to see whether it will be successful in the future.

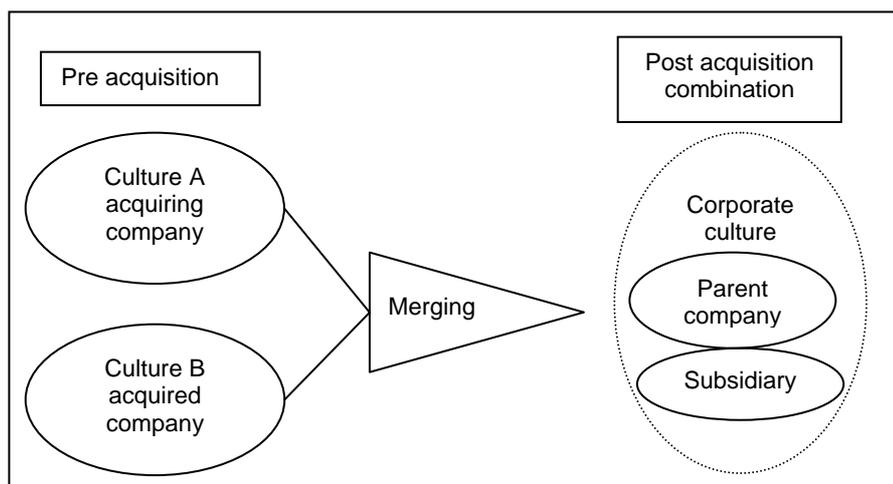


Figure 5.3 Acquisitions viewed from the differentiation perspective³

The third perspective, ambiguity, considers that cultural appearances are not clearly consistent or clearly inconsistent with each other. The company culture is, instead, viewed as separated, existing of many subcultures with both different and shared values. When the two organisation cultures come together, the ambiguity is acknowledged and sometimes even made to the focus of attention. A culture viewed from a different perspective cannot be considered as being either in harmony or conflict. Instead, individuals share some positions, disagree about some, and are ignorant of or indifferent to others (Martin & Meyerson, 1991).

³ Risberg, 1997, p. 260

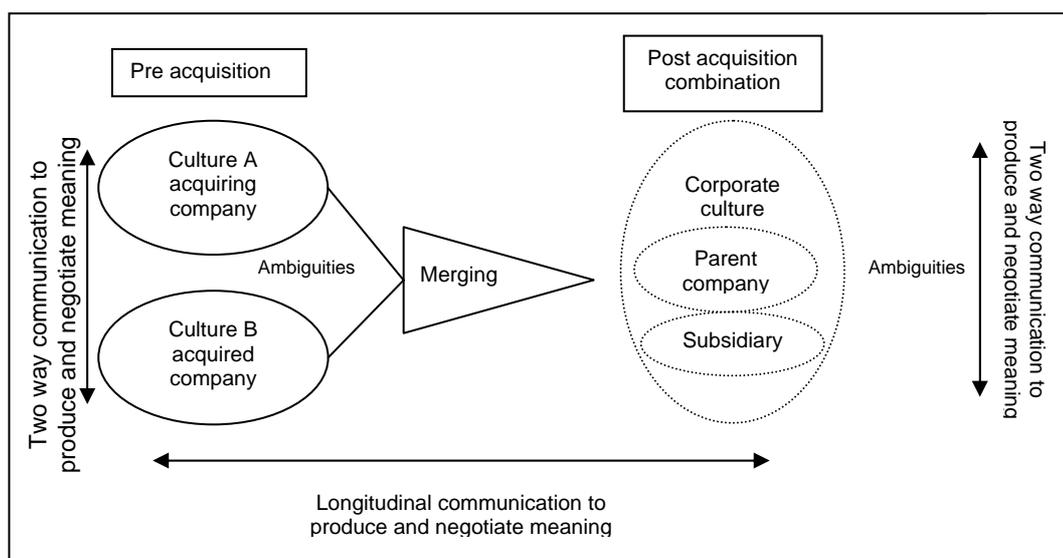


Figure 5.4 Acquisitions viewed from the ambiguity perspective⁴

This can be a very productive and efficient view for understanding cultural encounters, particularly in cross-cultural acquisitions where ambiguity and uncertainty can easily occur because of problems in communication. People with different cultural backgrounds bring different meanings, values, and assumptions into workplace related conversations (Risberg, 1997).

Nevertheless the consolidation of dissimilar cultures is always a very difficult project and needs a lot of effort to make it running. Differences may not always be an advantage. They also might be the reason of misunderstandings and communicational work ethic problems. This can menace the efficiency and goals of an organisation.

At that point communication becomes again a main role. Communication should be used to provide and negotiate meanings of the different individuals involved (Davis & Jasinski, 1993) and avoid ambiguities and uncertainties. To make two cultures working together it is not always

⁴ Risberg, 1997, p. 260

necessary to homogenise them, but to acknowledge the ambiguity in values and assumptions (Risberg, 1997).

By the decision for one homogenised culture or any other perspective of cultural combination, there has to be a clear and precise planning during the due diligence how the acquiring company can implement this new culture. If this planning would be done first in the integration process, it might be too late to avoid a deal. Even if many managers have other reasons for the deal, sometimes it could be more efficient, not to sign a deal because of heavy cultural differences than to pay millions to solve this difficulty, which influences the future financial performance in a negative way.

5.3. The Human Resource Department

So far we have just talked about general human resource issues. Nevertheless, a human due diligence also includes the investigation of the HR department which means knowing about the soft facts of the HR department. By that it must be examined whether or not the potential partner has solid HR policies, procedures and employment relationship practices, which end up in a motivation of the work force. This may also be explored by talking to people and see how they think about the HR conditions. It can also be interesting if the HR department is connected to the corporate identity strategy. In connection to the above-mentioned points of worker's performance and management qualification, during a due diligence, it should be figured out, what kind of internal training and development functions the potential HR department has. The due diligence included planning must also structure, what will be the need of training in the post-deal era and in the new organization over the long-run.

A mostly underestimated point is the motivation and feedback system. A well-developed feedback system can be a very cheap and efficient system to increase performance. Anyhow this must be lured and stirred by the HR department.

The knowledge about the HR department enables the buying company to create a driving plan for the new organization. If this is proper done, it might be much easier to establish the integration plan in both companies.

5.4. Problems and Conditions of the Altered Due Diligence Model

The depth of information in a due diligence, which is above mentioned as an advantage, may on the other side build a difficulty. In fact a due diligence is not a guarantee that the deal will be signed, many companies do not like to show their real dates, especially when both companies do business on the same market. In competing companies the serving of company figures are mostly prevented by the conflict of interest and for that reason mostly treated as a high security.

To have a deep, clear and detailed due diligence, for the beginning of a successful M&A, the two companies must agree about the acquisition. Both companies must believe in the advantage of the amalgamation and with that in the necessity of a proper due diligence. Those amalgamations are mainly called as a friendly merger or acquisition.

5.5. Process of Integration Planning in a Due Diligence

After we thought about our model and talked to a lawyer who was involved in the merger of Dresdner Bank and Allianz, we came to the point that we had to find out, how to receive all this detailed information and prepare the planning of integration. Following the article of Risberg (1997), which is issued on communication and due to the experience of one of our team members, we thought about how to make the communication more fluent and get detailed information about the different companies. To provide a way of implementing it into the practice, we developed the process of planning and integration which will be explained in the following part. For that reason, firstly it should be explained when and in how many steps the process of integration will proceed. To show where in the M&A process this sub-process starts and ends the following graphic has been created.

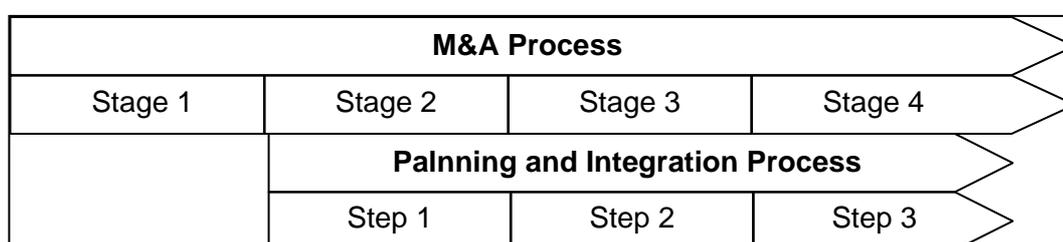


Figure 5.5 The Location of the Planning and Integration Process

As the graphic above illustrate, we think that the process of planning must start in stage 2, where the due diligence is located. The end of this process is in the phase of stage 4, as the implementation is done in the post acquisition era.

Step 1 contains the planning done in a due diligence which is explained in the part of the altered model. Here must be the beginning of thoughts, like: Dose this company fit to us and how can we implement them with their differences into a new cooperation. Step 2 is the point where planning of implementation becomes more developed, in fact more details will be

delivered and cross company teams can be created. And as explained below, as soon as negotiations are completed, the first employees can be sent to the acquired company. Step 3 stands for a final integration of the two companies into one new organisation. Referring to the paragraph of “analysis of cultural differences and creation of a cultural combination plan”, it does not mean to equalise all differences.

By creating the process of planning and integration, we also focused on the solution of our criticised issues, as mentioned in chapter 4.

Due to, that the first 100 days after the deal has been signed are supposed to be the critical stage of a M&A process, we think that the planning of this period might be done by this system. Hereby we combined the future planning and the analysis of dates. In the first step of this process, delegated members from the several departments together with consultants have to figure out the critical points of the departments. We think this should not just be done only by the manager, but also by normal officials and other staff. This has to be done on a high level of communication through the whole department. To have equal results and avoid gaps of information, the consultants advising the several delegated staff will meet from time to time to secure, and have their own communication between the departments. After the departments of both companies finish their reports, in step two, the teams from both companies will meet, compare their research and develop a plan for the future integration. This step will also involve consultants. The end of this stage has to be a clear and precise report about the points of a common due diligence and the detailed planning about integration. This will be reported to the board of the M&A department which is going to prepare the final due diligence.

The M&A department might be explained as a “communication centre” between the two companies. This can be interviewed by each employee or

manager for questions and problems related to the M&A process. Nevertheless, it is mainly focused to avoid double work and to secure the depth of the analysed dates. Due to the fact, that the board of M&A has a clear overview of the whole M&A dates, it can give final advice to the top management.

After the negotiation and when it is clear that the deal will be signed the involved companies should start to exchange observers which have a deep knowledge about the two companies. This starts, as explained above in step 2 of the planning and integration process. Based on their knowledge about the involved companies they will be able to polish the planning of integration and start with the integration.

As mentioned before, we also tried to solve the items of criticizing the common due diligence model. In the point of human resource due diligence the altered due diligence model has been discussed and with the planning process and the explanation how to use and where to pay attention on the human issues, is given.

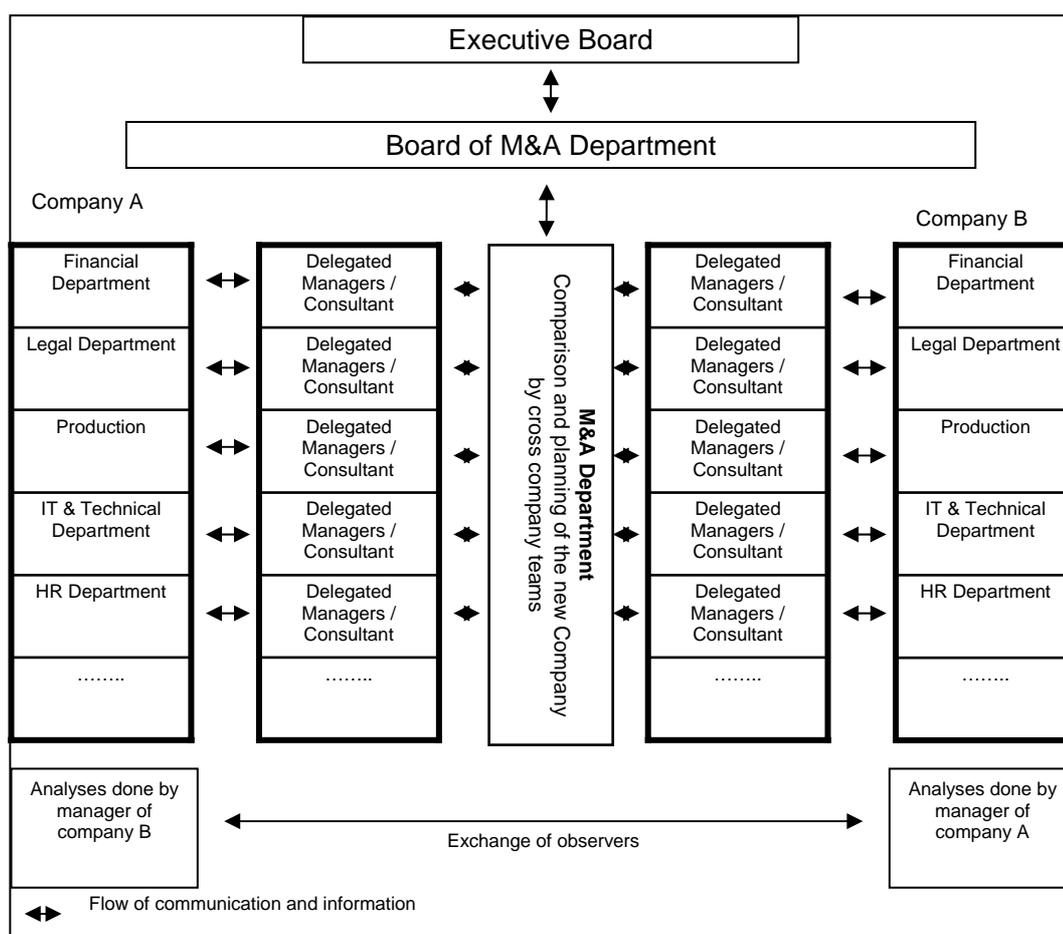


Figure 5.6 Process of Planning and Integration

The second point is the planning of integration, which has been placed from the integration into the stage of due diligence. That is because we believe it should be known by the managers before the deal is signed. The movement of the planning issue from the integration stage into the stage where the due diligence is carried out is one of the crucial measures taken in this research. An important reason for this change is that the whole M&A process is accompanied by a high pressure of time. Referring to the fact that the first 100 days after the deal is signed are the most important for success of the amalgamation, it will be a high advantage for the companies if they are well prepared for that stage and do not have to waste time to enter the stage of integration. Given that ‘time is money’ it also can be seen as a further step of cost reduction.

As announced in chapter 4, the involvement of consultants should be decreased to a basic level. In return, the involvement of company own employees should increase as far as possible. Due diligence practitioners attempt to give 'value for money' by tailoring their enquiries to their clients as far as possible, the due diligence report can lose objective balance from an adviser, in preference for the particular interests of the acquirer with the main goal of satisfaction. (Angwin, 2000). To avoid this common problem, existing in the consultancy market, the influence of the consultant will be decreased in this model, where only the necessary experience and knowledge will be used. The involvement of consultants comes together with the involvement of the different company employees.

Hereby we combine the specified knowledge of the consultants to the deep knowledge of the employees about the companies. Employees from both companies have knowledge and experience with the strategy and structure of the company they work for. The involvements of company own employees can bring many advantages to new organization. This avoids the difficulty when consultants hide a problem to the management. As just explained, hereby an involvement of the employees is guaranteed, that may create motivation and the feeling of necessity. Everyone feels integrated into the M&A process. In the first moment employees will be confronted with the idea that a merger or acquisition is a serious possibility for their company, but the risk of overlapping jobs and the experience of former amalgamation let uncertainty rise to a high level. Uncertainty can bring a negative flow in the atmosphere between all employees by the spreading of rumors. By the involvement of employees a feeling of importance and appreciation arise due to an honest and clear communication.

Communication can be seen as one of the most important and most difficult issues in a merger or acquisitions. Being clear and honest in a

communication and try to clarify expectations which are manageable and reachable, will affect the employees in a positive way and attract a flow of motivation and involvement.

We also tried to solve the problem of the cultural issues. By involving the employees of the different companies for the planning of integration, it will be much easier to find a good and accepted way to integrate or implement a new corporate culture. Problems can be avoided immediately and the plan of integration can be adjusted to the difficulties of the company concerned. This also gives the possibility to learn from advantages of other cultures and corporate strategies.

An important measure which we have taken in the model is the exchange of observers to achieve a better dimension of organizational and national culture. A manager from company A will be sent to company B and a manager from company B to company A. The aim of the exchange observers is to analyse the organizational and national culture. The managers might be seen as 'integration managers' and have the function of a project manager, communicator, analyst, relation builder and negotiator. The managers have the knowledge about their own organizational and national culture which will help them to get a clear comparison and find a solution to overcome the difficulties of differences. In case of time consumption and unexpected problems it is important to start the exchange as soon as possible. During the due diligence this will be impossible. Before the deal is signed, no manager wants to have 'strange competitors' around the work-floor. That is one reason why this observation system has to be planned before the deal is signed, which enables to carry out the analysis immediately after the deal is completed.

Concluding, it can be stated that all these points should be analysed and planned during the due diligence. Thus, during the first 100 days there will

be as less problems as possible within the new organization. Therefore we developed the altered human resource due diligence model as well as a process of integration planning, which presents a guideline how in our opinion the M&A process can be done in the most effective way.

Chapter 6

Empirical Method

In this chapter the empirical method is presented. Hereby the research strategy, the interview and the questionnaire will be explained. Also the limitations as well as the validity and reliability will be discussed. The response rate is also presented.

6. Empirical Method

6.1. The research Strategy

To be able to answer the in the beginning presented problem, a research strategy has to be chosen. In fact, as we decided to write about the above explained problem it became hard to find an access to a possible case study. Although it can be seen as the best way to get a rich and deep understanding of the research context and how the process is enacted (Morris & Wood, 1991; Saunders, et. al., 2003). Hence, we started with a broad review of literature about the M&A business by focusing on the part of the human and cultural due diligence, as well as on the problems of the mergers and acquisitions. After finding out what the main problems and criticism in the M&A processes are, we altered the common human resource due diligence model and developed a plan to implement our model and to solve the other points of criticism. We based our altered model on literature research. To see if we went into the right direction, we saw the need to confirm our work by launching a survey.

Through the targeted questions, our work should be tested if there is a conformance to the reality. Usually the survey strategy is linked to the deductive approach and enables the collection of a large amount of data from a large population in a highly economical way. This strategy gives the researcher, in case of standardised data, an easier way of comparison (Sanders, et. al., 2003). Since we wanted to compare our ideas with the general behaviour of managers in the M&A process, the survey strategy offered us a good option.

Our survey was performed as a questionnaire. Before we sent the questionnaire to the concerned people, we had a pilot test. This pilot test was done with the Managing Partners of a Swedish partner-owned M&A advisor, who also helped us to launch our survey. The purpose of our pilot test was, to see if there could be any misunderstandings and out of it resulting any problems to answer the questions. A pilot test also enables the researcher to test the questions' validity and reliability (Saunders, 2003). After the theoretical pilot test, we added a few more questions to the general part of our questionnaire to gain a more precise analysis of regional differences.

After having thought about, how to launch our questionnaire, we decided to have an online survey. It is a self administered questionnaire which enables us to analyse a large sample in a fast and easy way. For the respondent there is the advantage of staying anonymous and no complications by downloading a file. Furthermore, it was impossible to transform the questions. To send the questionnaire, we created a cover letter which included a link to our questionnaire. Since normally the rate of response is not very high, we announced to everyone who was taking part of the survey, that, if they fill in their email address at the end of the questionnaire, they will get a copy of the result of our work. A further point

to receive a good response rate was that we limited the questions to an amount of 24 questions which could be filled in about 10 and 15 minutes.

To be able to get in contact with all the partners around the world, we decided to prepare an Email in which we presented ourselves and also explained the reason for our survey. This email has been sent to Nordic Merger which launched it via the headquarters in the IMAP Network. In coordination with Nordic Merger we decided to send the email on a Friday, because it is supposed to be very common in that business that you also work on the weekend to do things for which there is no time during the week. We thought that our questionnaire would be exactly a piece of work for the weekend.

6.2. Selection of Sample

Since we had to find a good sample for our research, we searched for a strong and in the best case a world wide partner. Hereby it would be the best to get in contact with a global enterprise or an international network of people who are involved in the M&A business. Otherwise we had to try to find persons who are involved in that kind of business. The fact that this is a very elitist and secret business, it is very difficult to find and get in contact with the key person in several companies. Furthermore, such kinds of managers are very busy and do not like to spend their time filling in questionnaires. At the search for the best way of access and the right respondents, we heard about IMAP. This is an International Network of M&A Partners (IMAP) in an exclusive global partnership of leading Merger & Acquisition Advisory firms. "Formed in 1971, IMAP unites a select group of professional organizations active in international transactions into a seamless global partnership" (IMAP; 2005). To get in contact with IMAP,

we called the, in Iowa (USA) located headquarters, where we hit on high interest in our work.

Since we found in IMAP an organisation that fulfils all of our requisites we decided to focus on it. But to get a more effective communication and the possibility for a personal interview we were referred to its Swedish member, Nordic Merger. By calling Nordic Merger we also 'pushed at an open door' and we directly received the promise that they would support us with our survey and an invitation to visit the office in Halmstad (Sweden). With IMAP we had access to the international network of specialists in the M&A business that made 190 transactions in 2004. With an amount of 210, they were the Partnership with most transactions in 2003.

Why did we decide to focus on consultants? When we thought, whom we are going to involve in our investigation and survey, we figured out two realistic opportunities. One had been the above described international organisation and the other would have been to contact managers who are involved in M&A processes. Hereby it should have been managers who have done more than one due diligence, to obtain a higher reliability. Due to that fact, that the past has shown us that it is hard to receive a good and high response rate by online questionnaires, we thought that in a network of M&A advisers it might be easier to achieve a better result. In addition to their profession in the M&A business we believed that the result may have a better and higher impact on our work.

IMAP has exclusive partnerships with leading M&A advisory firms in 22 countries around the world and gave us the possibility to have a global investigation about due diligence experience and knowledge. By internal collaboration also each single respondent has international experience of the M&A business. An additional advantage has been that all of the

respondents had almost the same level of M&A acquisitions, which is a benefit for the reliability.

6.3. The Interview

To create a sample or also to join a real sample of an M&A process was impossible for us, as the time we had to finish our work was too short for such a big and deep investigation. It is also very hard to find a company which would accept studies in such a secret process. So we had to find another way to review and to test it in contact with the reality. Beside the survey, we got, as mentioned before, an interview with professionals of the M&A business. Hereby our main attention was the practical relevance and the possibility to use the model in the due diligence process. During the interview, the professionals from Nordic Merger agreed with us that issues as communication, planning of integration and the involvement of employees are very important items which are underestimated in the early part of the M&A business. During the search for the main problems, why the mentioned issues are underestimated, the professionals told us, that especially in the area of private owned and small until medium sized businesses there is a high refusal of open communication and information and involvement of employees. This is often a psychological problem which is based on the fact, that by selling a business, the owners think that everybody else will assume that it is a declaration of bankruptcy. Therefore, the beginning of an M&A process is always very reticently treated even if professionals advise them, that an open communication would be the best way for the creation of trust and value. Especially through the creation of value, the seller can claim it as an advantage during the negotiations.

During the interview we also explained our ideas how we think it might be the most efficient process to prepare a due diligence. At that point they also agreed with us, that by implementing the altered human due diligence

model the explained process might be a very good way, but they limited the process to the use of big companies, because in small sized businesses, many decisions are only made by the owner or the director, without the involvement of other employees.

To get further information about the problems of M&As and the use of a due diligence we asked both, general and specific questions, to see whether all our findings and possibilities to solve them are useful and correct or whether there have to be any changes. Our analysis of the interview arose no further changes of our work.

6.4. The Questionnaire

To collect all the data we needed to see how the problem is seen in the real business and whether or not we can solve this with our altered model and process, we chose a questionnaire, as explained before. To receive a result which will be useful for us, we carefully selected the questions and had a clear idea of what we would like to achieve with each question. Also to avoid misunderstandings or misinterpretations we tried to express the questions as clearly as possible. Furthermore we explained all terms at which we were uncertain whether there might be uncertainty. Before each section we also put a short explanation when it was necessary.

Our survey consisted of 24 questions and was divided into six parts. In the first part we asked general questions about the location and the experience of the respondents. The questions about experience enabled us to see how deep the knowledge about the topic is as well as to see how credible the answers are. In the second part we asked about communication issues. Hereby the respondents had to evaluate the questions about communication during the M&A process and where it has

to be included into this process. Part three included questions about the time of involvement of consultants. The fourth part was about planning issues, with was one of our main altered points. The two last parts were about involvement of the companies own employees and cultural issues, which also have been parts of our main focus. A few of the questions have been closed questions where we provided a number of answers from which the respondent has been instructed to choose. Nevertheless, the main questions have been rating questions where the respondent had to evaluate the statement of our question. Hereby, we used a Likert-style rating (Malhotra & Birks 2003), made up of seven possibilities. Since our survey was forwarded to 98 offices in 22 countries, the questions have been verbalised in English. To be as professional as possible, we asked an English teacher to make sure that there were no mistakes in our survey.

6.5. Limitations

Because of the broad field of M&A and the comprised topic of due diligence the research has some limitations. As mentioned before, it is very hard to get the right contact persons in a company who knows about due diligences and has already made deals for the company. That is why we decided to limit our survey research to the knowledge of professionals, which has also been supported by the access to the international network of IMAP. Here we had the advantage that we could have the questionnaire in English. But to analyse the M&A process of a specific company by a practical test, we had the problem that we had no access to an English company. This would have been necessary since we are an international team with different mother tongues. Therefore our research is limited, as we only analysed the answers of M&A consultants. But that does not have

to be a disadvantage because they mostly have a very broad knowledge about that topic and the advantage of experience.

We also had the limitation of time and finance. As mentioned before, the limitation of time disabled us, to have a more detailed and practically related review of our theoretical part. Also the professionals, with whom we had the interview, told us, that it may take up to one year until the deal will be signed. Especially the pre-deal stage can be very time consuming which made it even clearer that we had to limit our research.

On the financial side we had not been in funds so that we also were limited on that point. On that account we could not go back to existing databases or other information liable to cost. This meant to, that some research methods were not possible for us to use. The developed internet survey has been a possibility which did not break our financial capacity.

6.6. Response Rate

The questionnaire has been sent to 142 professionals who belong to the International Network of M&A Partners (IMAP). Since it has been strictly voluntary for them to take part in our survey, we received 20 responses. Phrased in percentage, the active response rate is 14.1 %. The activated response rate is the total number of responses divided with the total number of participants (Saunders, et. al., 2003). The rest of them did not want to participate in our investigation, because of lack of time. Since the answers we got are from real professionals, we assume that the answers have a higher value because of their experience and knowledge about their business.

By the reflection of the origin of the responses we found out that 40% of the responses came from the United States and 10% came from Denmark. The remaining 50% are in equal shares from Belgium, Brazil, France, Germany, Italy, Norway, Sweden and Switzerland.

Since we had access to an international network of M&A advisers, we expected a higher total amount of responses. But for a online survey a response rate of 14.1% is satisfactorily.

Table 6.1 Response Rate

Response Rate	Absolut	Percent	
Respondents conducted but no answers	122	85,9%	85,9%
Respondents conducted with answers	20	14,1%	100%
Total	142	100%	
Answers from USA	8	40%	
Answers from Denmark	2	10%	
Answers from other States	10	50%	

6.7. Reliability

Reliability is understood as the dimension to which a scale produces consistent results if the process of measurement were to be repeated (Malhotra & Birks, 2003; Saunders, et. al., 2003) Hereby the point of time placing a survey might have a high influence on the reliability of the research. This threat to reliability is called *subject or participant error*. Mostly it is said that a questionnaire should be conducted at a natural

time. Due to the fact that we launched our survey to a network of professionals which are mostly also working on the weekend we thought during that time the respondent would have most time to fill in a questionnaire.

Since we also had an interview, a similar threat to reliability *subject or participant bias* shall be considered. This means that employees may have been said what they thought their employer wanted them to say (Saunders, et. al., 2003). This threat can be categorical excluded because we interviewed the shareholding partners.

Furthermore, some of our questions showed the personal opinion of the respondent. On these questions there will always be minor differences, due to the changes of opinions and views.

6.8. Validity

Validity detects whether the relationship between two variables is causal and the findings are really about what they appear to be about (Saunders, et. al., 2003). In other words, it is “the extent to which a measurement represents characteristics that exist in the phenomenon under investigation”(Malhotra & Birks, 2003, p 770). The characteristic of a good and representative research is a high validity. By developing our questions, we tried to formulate them so that we may measure what we would like to measure. But there is no guarantee that it worked as we expected. Even if we tried to consider the threats to validity as mentioned by Saunders et. al. (2003) we can not be sure whether the respondent has been touched by it.

To see whether our findings and changes in the altered human due diligence model have a causal relationship we tested for example the connection between communication and the possibility to solve cultural problems as well as the evaluation of three perspectives in cultural combination. Even if we cannot be sure whether our survey is absolutely valid we tried to keep it as high as possible.

6.9. Generalisability

This term refers to a dimension to which one can generalise from the observations at hand to an entirety of generalisations. In generalisability studies, measurement procedures are designed to investigate each entirety of interest by scanning conditions of measurement from each of them (Malhotra & Birks, 2003).

As already mentioned before, there are limitations in our research so that we cannot allege that our model can be generalised. But it is generally admitted that the issues, explained in the critical part and focused on our altered human due diligence model are main problems of a successful merger or acquisition. Nevertheless, especially in cultural topics it is very hard to find a general state. Our main aim was to explain a possible way to solve the problems and give suggestions to create value in mergers or acquisitions.

Chapter 7

Analysis

This chapter presents the results of the questionnaire and evaluates the hypotheses. The critical points about the common due diligence model are tested, whether our altered model was correct.

7. Analysis of the Structure of the Altered Models and Testing Hypotheses.

7.1. Introduction

After analysing the survey we present an evaluation of the empirical results. The purpose of this chapter is to test the variables, which we used to develop the altered due diligence model. By conducting a one sample T-test we wanted to analyse if the shortcomings in the due diligence model and process of integration are not only incomplete from a theoretical point of view but also in a practical way. The values of the factors, which we found, will be tested to check whether the predicted model was correct.

In chapter 2 we formulated six hypotheses related to the altered human due diligence model, process of integration planning in a due diligence and the model of the planning and integration process as explained in chapter 5. By creating the hypotheses, we involved the critical points which we mentioned in chapter 4 concerning the common due diligence model. In this chapter these hypotheses will be empirical tested.

This chapter is divided in five sections, one concerning general information about the responses and four independent sections which represent the critical points of the common models.

7.2. General information about the responses

After criticizing the common model and after our model was created, we thought that our topic was very specific and a good understanding would require an explicit knowledge. During the research we cooperated with a merger and acquisition network the International Merger and Acquisitions Partners (IMAP), as explained in chapter 6. This network enabled us to ask consultants with knowledge about merger and acquisitions in an international perspective. To give a clear picture about the specialists who answered our questions we will give some general information about their backgrounds.

After sending our internet questionnaire to 142 consultants, representing 96 offices and 22 countries we had a response of 20 which gave a response rate of more than 14%.

Table 7.1 Number of countries representing our responses

	Total	Percent
Belgium	1	5
Brazil	1	5
China	1	5
Denmark	2	10
France	1	5
Germany	1	5
Italy	1	5
Netherlands	1	5

Norway	1	5
Sweden	1	5
United Kingdom	1	5
United States	8	40

If we analyse the countries where the consultants come from, there is a high number of consultants from the United States. The reason is that IMAP is originally a network from the United States.

Because the consultants work in twelve different countries and have different specialties and different backgrounds, we divided the consultants in different sectors where they mainly work.

Table 7.2 Sectors where the respondents mainly work for

	Total	Percent
Automotive	2	10
Business services & Distribution	1	5
IT & Electronics	3	15
Packaging & Logistics	3	15
Live Sciences	2	10
Banking & Finance	3	15
Various	4	20
Other	2	10

There is not one specific sector in which the consultants mainly work. It differs from consultant to consultant and country to country. For our research it is good to have a broad spread to test our models, because we are not really focused on one specific sector.

Each consultant has his/her own specialty and therefore we asked in what kind of deals they are mostly involved. A different involvement of deals means a different way of working as a deal has an approach of its own which is different from the way the consultant is involved in the deal.

Table 7.3 In what kind of deals are the respondents mostly involved

	Total	Percent
Selling Companies	16	80
Buying Companies	2	10
Both buy and sell	2	10

7.3. Testing the models

7.3.1. Introduction

In this part, we started with the examination of the parts of the model. Our model consists of different parts which were tested independently. Each part was an important piece which made the model complete if we put all the parts together. By testing each part we built our model in a step-by-step process. In chapter 4 we described critical points which we found after analysing the theoretical part about the common due diligence model.

The analysis started with the communicational issues, to test whether or not a clear communication part was an important factor for success in a merger & acquisition and that it is not very common to have a proper information and communication system during a merger or acquisitions.

The second part of the analysis is about the involvement of consultants and the companies own employees during the merger or acquisition process. Using consultants in combination with the involvement of own employees, working together in teams may create the most advantages and the best results, in our opinion.

The third part in the analysis is about the planning issues. During the research we found out that integration planning should be an essential item in the due diligence process. The planning of integration was not often carried out in the due diligence process but after the deal was signed. We wanted to test if the planning of integration in a merger or acquisition is underestimated by the acquiring.

The fourth part in the analysis is about the cultural issues. Cultural issues are highly underestimated in international M&As. Many of the failures found in acquisitions exist because of cultural clashes. Cultural issues are often ignored during the early stages of integration (planning), we think that it should be planned as early as possible at least during the due diligence process. A crucial point for failure might be a cultural mismatch and integration problems between employees.

7.3.2. Communicational issues

To test the importance of communicational issues we developed the following hypotheses:

A proper information and communication system should be included in a due diligence model. To analyse if the information and communication should be included in a due diligence, we analysed the following item:

Do most of the client companies have a proper information and communication system for the M&A process? With a scale from 1 (Strongly agree) until 7 (Strongly disagree), we decided to use four as the test value because it is the midpoint between one and seven. Various applications of the one sample T-test are distinguished by their methods of choosing a test value; the test may be the midpoint of the test variable (Green & Salkind, 1997, p137). We started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ because we think that most of the consultants will say that acquiring companies have a proper information and communication system and know the importance of it, because that is how it should be from our point of view.

Table 7.4 Do most of the client companies have a proper information and communication system for the M&A process?

N	Mean	Std. Deviation	Std. error mean	Significance
20	4,200	1,23969	,27720	,479 (47,9%)

The significance level is 5% to accept H_0 . H_0 should be accepted with a significance of ,479 (47,9%) and a mean value of 4,2. Therefore we can

reject H1. Not many consultants think that the client companies have a proper information and communication system for the M&A process.

If the acquiring companies use a information and communication system, we want to know how the consultants evaluate the information and communication system in most of the client companies. Is it complete or can it be better in most of the cases.

With a scale from 1 (Excellent) until 7 (Poor) we started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ because we think that most of the consultants will say that acquiring companies evaluate the information and communication system as excellent because that is how it should look like in our opinion.

Table 7.5 How do the consultants evaluate the information and communication system in most of the client companies.

N	Mean	Std. Deviation	Std. error mean	Significance
20	4,0500	1,09904	,24575	,841 (84,1%)

The significance level is 5% to accept H0. H0 should be accepted with a significance of ,841 (84,1%) and a mean value of 4,0500. Therefore we can reject H1. Not many consultants evaluate the information and communication system as excellent. In the opinion of the consultants the information and communication system is far from perfect in the acquiring companies.

An important cause of failure in merger and acquisitions is a cultural clash. An open information and communication system might clarify the differences in cross cultural aspects.

With a scale from 1 (Strongly agree) until 7 (Strongly disagree) we started to analyse with the following hypotheses: $H_0 < 4$ and $H_1 > 4$. We decided to choose $H_1 > 4$ because we think that most of the consultants will say that acquiring companies will pay attention to the cross cultural aspects because that is how it should be in our opinion.

Table 7.6 Did the information and communication system pay attention to the cross cultural aspects.

N	Mean	Std. Deviation	Std. error mean	Significance
20	4,000	1,52177	,34028	1,000 (100%)

The significance level is 5% to accept H_0 . H_0 should be accepted with a significance of 1,000 (100%) and a mean value of 4,000. Therefore we can reject H_1 . Not many consultants thought that the information and communication system pay attention to the cross cultural aspects. In the opinion of the consultants the degree of attention on cross cultural aspects in the information and communication system is not extremely bad and not extremely good in the acquiring companies because the mean value is exactly 4,000. But in our opinion the information and communication should pay a high level of attention to the cross cultural aspects and the final outcomes do not confirm this expectation.

After analysing three questions concerning the communicational issues it is shown that not many consultants think that the client companies have a proper information and communication system for the M&A process. Not many consultants evaluate the information and communication system excellent, the system is far from perfect in the acquiring companies. And not many consultants thought that the information and communication system pay attention to the cross cultural aspects. In the opinion of the consultants the degree of attention on cross cultural aspects in the information and communication system is not extremely bad and not

extremely good in the acquiring companies. This final outcomes are just a reflection how we expect it and where we paid attention on while we developed the altered due diligence model. Our hypothesis concerning the communicational issues will be confirmed that a proper information and communication system should be included in a human due diligence model. The attention on the information and communication system should be higher and more précised in the due diligence, because it is not done in many existing merger and acquisitions.

7.3.3. Involvement of consultants and company own employees

To test the importance of the involvement of consultants and company own employees we developed the following hypothesis:

A combined due diligence team with less involvement of consultants and a higher involvement of company own employees create more advantages and better results.

We divided this hypotheses in two parts to research from two different perspectives, the involvement of consultants and involvement of company own employees. We will start with the involvement of consultants. An important limitation has to be made that our questions were asked to consultants; the expectation will be that the final outcomes are pro-consultant because they answered the questions about their own experience. During the analysis we were attended about this item and asked the questions from a more general point of view.

The first item, we wanted to know about the consultants is when they start their work during an M&A process. We divided the answers in four different stages, (1) before the due diligence, (2) during the due diligence, (3) during the negotiation and (4) after the deal is signed. For this question we did not use hypotheses H0 and H1 and significance level because we did not use a scale, as seen in the previous questions. We calculated the mean value, to see at which stage most consultants start.

Table 7.7 When does a consultant mostly start his work as a consultant company, during a merger and acquisition process.

N	Mean	Std. Deviation	Std. error mean	Significance
20	1,200	,61559	,13765	,000

We divided the first two stages in (1) before the due diligence, (2) during the due diligence. The mean value is 1,2 and it tells us that consultant companies mostly start before the due diligence during a merger and acquisition process.

The second item we wanted to know about the consultants is when they complete their work and reach the finishing touch with the client company in the merger or acquisition process. We divided the answers in six different possibilities, (1) after the due diligence, (2) after the negotiation, (3) after the deal is signed, in the integration process but before the critical 100 days expire, (4) after the integration process, when the post acquisition stage ended but before the critical 100 days expire, (5) after the integration process and after the critical 100 days expire and (6) the last option is another stage as mentioned above. We choose the first 100 days as a critical point because it is often mentioned that in a merger or acquisition the first 100 days after the deal is signed are critical for success or failure.

For this question we did not use hypotheses H0 and H1 and significance level because we did not use a scale, as seen in the previous questions. We calculated the mean value, to see to which stage most consultants finish their work in the client company.

Table 7.8 When does a consulting company, complete the work and reach the finishing touch with the client company in the merger and acquisition company.

N	Mean	Std. Deviation	Std. error mean	Significance
20	3,100	,55251	,12354	,000

The mean value is 3,1 and means that a consultant company mostly complete his work and reach the finishing touch with the client company in the merger or acquisition process after the deal is signed, in the integration process but before the critical 100 days expire.

Useful comments which have been made are: (comments from the questionnaire)

The involvement of consultants varies from country to country, the UK loves to hire outside consultants, and the French seems to hate them.

It's a good idea to sell your horse before it dies, so finish the contact with the client company in time.

The involvement of consultants have to be divided in two different kind of consultants, we are deal process consultants, involved in pre-deal. Post-merger issues are more the domain of typical management consultants.

Post Merger Integration should be coached by consultants. But only consultants with an industrial seniority in organizational reengineering will be able to manage this process, because it is a complex business.

The second part is about the involvement of company own employees. We divided the involvement of company own employees in white collar (office people) and blue collar (factory people) employees.

With a scale from 1 (Yes, highly involved) until 7 (No, not involved at all) we started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ because we think that most of the employees should be involved in merger and acquisitions.

Table 7.9 Who were involved into the due diligence process

	N	Mean	Std. Deviation	Std.error mean	Significance
Top Management	20	4,000	2,176	,487	1,000 (100%)
Head of departments	20	6,150	1,309	,292	,000 (0%)
Company specialists	20	2,600	1,603	,358	,001 (1%)
Consultants	20	1,550	1,468	,328	,000 (0%)
White collar employee	20	2,450	1,700	,380	,001 (1%)
Blue collar employee	20	3,100	2,337	,522	,101 (10,1%)

With the significance level of 5% to accept H_0 , we can come to the following conclusion: Top Management have a significance level of 1,000 (100%) with a mean value of exactly 4. We have to accept H_0 and reject H_1 . Top management is according to the consultants not highly involved into the due diligence process. One reason might be that the top management are the final decision makers and therefore they are not involved in the process.

Head of departments have a significance level of 0,000 (0%) with a mean value of 6,150. The significance level is 0% because the final outcome is far from the test value 4. The Head of departments are according to the consultants not involved into the due diligence process.

Specialists of the company (for several specific problems) have a significance level of 0,001 (1%) with a mean value of 2,600. We have to accept H1 and reject H0. Specialists of the company are according to the consultants highly involved into the due diligence process.

Consultants have a significance level of 0,000 (0%) with a mean value of 1,550. We have to accept H1 and reject H0. Consultants are according to themselves highly involved into the due diligence process. This answer is not 100% valid because the consultants have an opinion about consultants.

White collar employees have a significance level of, 001 (1%) with a mean value of 2,450. We have to accept H1 and reject H0. White collar employees are according to the consultants highly involved onto the due diligence process.

Blue collar employees have a significance level of, 101 (10,1%) with a mean value of 3,100. We have to accept H0 and reject H1. Blue collar employees are according to the consultants not involved into the due diligence process.

After the analysis of the statistical calculation it is shown that top management, head of departments and blue collar employees are not highly involved into the due diligence process. The specialists of the company, consultants and white collar employees are highly involved into the due diligence process.

In our model we explained that it is important to have a high involvement of company own employees. Involvement of own personnel from both of the companies in the whole M&A process is often underestimated or ignored. If the own company employees are involved it is often too late in the process. The employee has to work with it on a daily basis and in the future and has exact knowledge about the strategy, structure and (company) culture as it was before the Merger or Acquisition. It might be a good development during due diligence stage to involve own employees in as early as possible. A higher involvement of company own employees in the due diligence will create a higher level of trust and increase the motivation between the employees, Therefore we want to know if it is important to involve white collar Office people) employees and blue collar factory people) employees.

With a scale from 1 (Strongly agree) until 7 (Strongly disagree) we started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ because we think that most of the consultants will say that acquiring companies think that it is important to involve white collar employees in the due diligence process that is how it should be in our opinion.

Table 7.10 Does the consultant think that it is important to involve white collar employees in the due diligence process.

N	Mean	Std. Deviation	Std. error mean	Significance
20	3,45	1,9585	,4382	,225 (22,5%)

The significance level is 5% to accept H_0 . H_0 should be accepted with a significance of ,225 (22,5%) and a mean value of 3,45. Therefore we can reject H_1 . Not many consultants thought that it is important to involve white collar employees. We think that this result is a good reflection of the

existing merger and acquisitions where it is not common to involve (many) white collar employees in the due diligence process.

We also wanted to analyse if the consultants think that it is important to involve blue collar employees. With a scale from 1 (Strongly agree) until 7 (Strongly disagree) we started to analyse with the following hypotheses: $H_0 < 4$ and $H_1 > 4$. We decided to choose $H_1 > 4$ because we think that most of the consultants will say that acquiring companies think that it is not important to involve blue collar employees in the due diligence process that is not how it should be in our opinion.

Table 7.11 Does the consultant think that it is important to involve blue collar employees in the due diligence process.

N	Mean	Std. Deviation	Std. error mean	Significance
20	5,4	1,667	,3228	,001 (1%)

The significance level is 5% to accept H_0 . H_1 should be accepted and H_0 rejected with a significance of ,001 (1%) and a mean value of 5,40. Therefore we can reject H_0 . Not many consultants thought that it is important to involve blue collar employees. We think that this result is a good reflection of the existing merger and acquisitions where it is not common to involve blue collar employees in the due diligence process.

After analysing the involvement of white and blue collar employees it is clear that not many consultants think that it is important to involve them in the due diligence process or at least we can conclude that it is not common in the existing merger and acquisitions. As we described we think that it is better for both companies to involve them into the due diligence process. A higher involvement of company own employees create trust and a higher level of motivation. In our model we describe that an

acquiring company should start with the integration planning during the due diligence process and therefore an involvement of company own employees is necessary and could be the difference between success or failure but it also depends on what kind of deal it is and the size of the company.

7.3.4. Cultural issues

To test the importance of cultural issues we developed the following hypothesis:

Analysis of cultural differences is indispensable in a human due diligence and a cultural combination plan should start in a due diligence as soon as possible.

We want to know how high the consultants see the importance of cultural issues. How high has the attention on the cross cultural issues been during the due diligence? With a scale from 1 (excellent) until 7 (poor) we started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ because we think that most of the consultants will say that acquiring companies have a high attention on the cross cultural issues during the due diligence process because that is how it should be from our point of view.

Table 7.12 How high has the attention on the cross cultural issues been during the due diligence.

N	Mean	Std. Deviation	Std. error mean	Significance
20	3,700	1,342	,300	,330 (33%)

The significance level is 5% to accept H0. H1 should be rejected and H0 accepted with a significance of ,330 (33%) and a mean value of 3,700. Therefore we can reject H1 and accept H0. Not many consultants thought that it is important to have a high attention on the cross cultural issues during the due diligence process. We think that this result is a good reflection of the existing merger and acquisitions where it is not common to have a high attention on the cross cultural issues during the due diligence process.

After analysing these outcomes it is clear, from our point of view that cultural issues are highly underestimated in international M&As. Much of the failure found in acquisitions has been explained by cultural clashes because cultural issues are often ignored during the early stages of integration (planning).

Cultural clashes emerge during the pre and post acquisition integration periods. Many expected and unexpected problems may lead to breakdowns in communication and a divisive “we-they” mentality between two different cultures.

7.3.5. Integration planning

During the research we found out that integration planning should be an essential item which take place in the due diligence process. Therefore we developed the following hypothesis: *Integration planning should start in a due diligence as soon as possible*. After analysing the theoretical part we were surprised that the planning of integration is not often carried out in the due diligence process but after the deal is signed. We really think that this item is one of the most important founding's in this dissertation. To test the statement that the planning of integration should take place in the due diligence process, professionals were asked about their personal opinion.

With a scale from 1 (Strongly agree) until 7 (Strongly disagree) we started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ because we think that most of the consultants will say that acquiring companies have to start with the planning of integration in the due diligence process because that is how it should be from our point of view.

Table 7.13 It is important to start with the planning of integration in the due diligence process.

N	Mean	Std. Deviation	Std. error mean	Significance
20	2,35	2,003	,4547	,002 (2%)

The significance level is 5% to accept H_0 . H_1 should be accepted and H_0 rejected with a significance of ,002 (2%) and a mean value of 2,35. Therefore we can accept H_1 and reject H_0 . Many consultants thought that it is important to start with the planning of integration in the due diligence

process. We totally agree with this result that it is important to start with the planning of integration in the due diligence process. But this outcome from a personal point of view from the consultants but it is not common to start in this stage in every merger and acquisition. To be sure about this we want to know when the acquiring companies start with the planning of integration of the two companies.

With a scale from 1 (Yes, they start the planning) until 7 (No, they did not start the planning). We mentioned four different stages: during the due diligence, during the negotiation, during signing the deal, after the deal is signed.

We started to analyse with the following hypotheses: $H_0 > 4$ and $H_1 < 4$. We decided to choose $H_1 < 4$ to see in which stage the acquiring company start with the planning of integration from the consultants' points of view. We think that the planning of integration should start during the due diligence.

Table 7.14 when did the acquiring company start with the planning of integration of the two companies.

	N	Mean	Std. Deviation	Std.error mean	Significance
During due diligence	20	2,850	1,980	,4423	,018 (1,8%)
During the negotiation	20	3,650	1,872	,415	,413 (41,3%)
During signing the deal	20	3,700	1,867	,417	,481 (48,1%)
After the deal is signed	20	3.650	1,954	,437	,433 (43,3%)

With a significance level of 5% to accept H_0 acquiring companies start with the planning of the integration:

During the due diligence: the result is significant, we can accept H1 and reject H0. We can confirm that acquiring companies start with the planning of integration during the due diligence

During negotiations: the result is not significant, we have to accept H0 and reject H1 because the significance is 41,3% and far above the level of 5%. We can confirm that acquiring companies start not with the planning of integration during the negotiation.

During signing the deal: the result is not significant, we have to accept H0 and reject H1 because the significance is 48,1% and far above the level of 5%. We can confirm that acquiring companies start not with the planning of integration during signing the deal.

After the deal is signed: the result is not significant, we have to accept H0 and reject H1 because the significance is 43,3% and far above the level of 5%. We can confirm that acquiring companies start not with the planning of integration after the deal is signed.

After the calculation it is proved that acquiring companies start the planning of integration during the due diligence process. That there are companies who start the integration planning during the due diligence process is a good sign but after analysing the data it is shown that it is not a priority. The mean values of the items that the start of integration planning takes place during negotiation, during signing the deal and after the deal is signed are all under 4, that will say that some companies start with the planning of integration after the due diligence.

In fact that a company is able to start only one time with the planning of integration it is shown that it is not a number one priority to do this in the due diligence process. It is a positive development that many companies

start with the planning of integration during the due diligence but our statement is that it is absolutely necessary for all companies to start the planning of integration during due diligence.

A limitation will be that the interpretation of integration planning is different from person to person. If a company starts with the planning of integration during the due diligence it is not possible to see what the interpretation of integration planning is. To start with the planning of integration in a global way without any detail would be not a good development. A critical point might be that during the due diligence not all the information about the acquired company is available, so a planning in clear details might not be possible. But to start with the planning of integration which is too global would be not good at all for the further development of the merger or acquisition.

During the questionnaire we gave the possibility to consultants to give any comments. The following comments were given, which reflects our thoughts about integration planning: (comments from the questionnaire)

“The Buyer should develop a complete integration plan before ever going out to look at acquisitions.”

“Integration should be thought of even before due diligence, beginning maybe before the target is contacted.”

“Integration should start soonest possible - before negotiations.”

These comments confirm our thoughts that a company should not wait with the planning of integration after the due diligence but at least during the due diligence or before. But it is still a difficult point how detailed or global the integration planning should be during each stage.

Another important comment was that the integration planning depends on several factors as the situation with criteria about deal size, complexity of the deal and/or required speed of integration. In this case there is no one-size-fits-all answer, in opinion of one specific consultant. No deal is the same but in every deal the planning of integration should start as much as possible. It differs on these factors above if it is easy to plan or if it will be more difficult. It is still very important to start with the planning of integration as early as possible, but how long it will take and when the planning is finished is different from deal to deal.

7.4. Conclusions and chapter summary

Finally we have one hypothesis left. *Focusing on the human issues during the due diligence enhances the chances of success in international merger and acquisition.*

This hypothesis reflects all our models together and the answer is kind of a summary for the whole analysis. It concerns the communicational issues, involvement of consultants, involvement of company own employees, cultural issues and integration planning.

7.4.1. Communication

In our hypothesis we proposed that a proper information and communication system should be included in a due diligence model. In our opinion it is the best way to start with this issue in a early stage. After analysing the final outcomes it is clear that there is often no proper communication and information system at all.

7.4.2. Involvement of consultants and company own employees

We proposed in our hypothesis that: *A combined due diligence team with less involvement of consultants and a higher involvement of company own employees may create more advantages and better results.* According to the consultants, in existing merger and acquisitions the top management, head of departments and blue collar employees are not highly involved into the due diligence process. The specialists of the company, consultants and white collar employees are highly involved into the due diligence process. The final outcome that consultants are involved into the process is not 100% valid. One reason is that we asked consultants about consultants. Another reason is that during our in depth interview with Nordic Merger from Halmstad (Sweden) the consultants mentioned that in Sweden only 10% of all the deals, consultants are involved.

We thought that it might be better to involve more company own employees into the due diligence process. One important reason is that we brought the planning of integration into the due diligence process. Therefore we thought that it might be important to involve the employees, to create trust and reach a higher level of motivation. Nowadays it is not very common to do this that is probably why the consultants do not think that it is important to have a higher involvement of company own employees.

7.4.3. Cultural issues

In our hypothesis we proposed that: *analysis of cultural differences is indispensable in a human due diligence and a cultural combination plan should start in a due diligence as soon as possible.*

Not many consultants thought that it is important to have a high attention on the cross cultural issues during the due diligence process. We think that this result is a good reflection of the existing merger and acquisitions where it is not common to have a high attention on the cross cultural issues during the due diligence process.

After analysing these outcomes it is clear, from our point of view that cultural issues are highly underestimated in international M&As. Much of the failure found in acquisitions has been explained by cultural clashes because cultural issues are often ignored during the early stages of integration (planning).

7.4.4. Integration planning

In our hypothesis we proposed that: *Integration planning should start in a due diligence as soon as possible.*

We absolutely did not expect that the consultants would agree with this statement, because planning is underestimated in most common merger and acquisitions. But the consultants agreed with our statement, many consultants thought that it is important to start with the planning of integration in the due diligence process

We confirmed that most acquiring companies start with the planning of integration during the due diligence, an answer we did not expect at all. This might be a critical point about this dissertation. But we have to realize that this question is very global and not clear. Therefore a limitation will be that the interpretation of integration planning is different from person to person. If a company start with the planning of integration during the due diligence it is not possible to see what the interpretation of integration planning is. To start with the planning of integration in a global way without any detail would be not a good development. A critical point might be that during the due diligence not all the information about the acquired company is available, so a planning in clear details might not be possible. But to start with the planning of integration which is too global would be not good at all for the further development of the merger or acquisition.

7.5. Conclusion of the Analysis

We confirm our final hypothesis that *focusing on the human issues during the due diligence enhances the chances of success in international merger and acquisition.*

During the analysis the reflection of a practical view in combination with our thoughts were sometimes close but not always equal. That might be one of the reasons why most of the merger and acquisition still fail, nowadays. By carrying out a integration planning in the due diligence stage many possible problems in the long or short term can be analysed. A proper information and communication system will make everything more clear and reduce uncertainty. Also a higher involvement of company own employees create a higher level of trust and reduce uncertainty between the employees. Finally the cultural issues are very important because cultural clashes are one of the most reasons for failure in

international merger and acquisitions. Human beings with different cultural backgrounds will simply not work together.

Chapter 8

Conclusions

The conclusions of the study are presented. The dissertation is summarised, the advantages and limitations of our model are discussed. Also the applicability of the model is shown as well as the modification of the created model. Future research and practical implication are suggested.

8. Conclusions

8.1. Introduction

The main purpose with our dissertation was to search for the leading cause for failure of amalgamations. We studied the literature of the different researchers and conducted an empirical survey about a due diligence that in our opinion is a core determinant for the failure or success of the deal.

We considered the main human problems, cultural differences and other factors of failure of the amalgamations in order to find a way to avoid them by applying a more detailed human resources due diligence model. In order to test our altered due diligence human resources model we formulated six hypotheses, which were proved by the answers to the questions in the questionnaire. The hypotheses were closely linked to the research questions of our dissertation.

At the beginning of our dissertation we posed a few general research questions concerning the M&A process:

- Why do so many M&As fail?
- What are the most important factors in the process of the M&A that provide success?
- What should be done in order to conduct a successful M&A?

Trying to find the answer to the first question during our theoretical research we drew the conclusion that one of the main causes of failure of M&As might be found in the due diligence process. When the company is going to enter into the M&A transactions there is a deep analysis of financial data of the target company. The “soft” factors such as the human factor and related to it cultural aspects are usually omitted. Managers, owners of the companies and also some of the consultants underestimate the importance of the human resource due diligence. Thus our core hypothesis assuming that *focusing on the human issues during the due diligence stage enhances the chances of the success of the international M&A* was proved already at the beginning of the theoretical research and then tested and proved in an empirical survey.

Since the way in which the due diligence process is carried out may also determine the result of the deal it is very important to involve both consultants and employees of the target company in the process of the due diligence. The knowledge of the employees can enable the consultants to acquaint them with all aspects of the target company in more detail. This conclusion follows from the proved hypothesis, based on the model of the due diligence process, which states that a *combined due diligence team, with less involvement of consultants and a higher involvement of the company’s own employees, create more advantages and better results in the integration of the two companies.*

In order to conduct the successful amalgamation the planning of the integration has also to be taken into consideration during the due diligence. It is not enough to analyse and check if the target company's data fit the expected results of the deal. It is essential to plan future integration before the deal is signed. Also aforesaid conclusion was based on the proved hypothesis which assumes that *integration planning should start as early as possible in the due diligence stage.*

In our empirical research we focused on more precise questions relating to the due diligence in the process of the M&A. We tried to evaluate the importance of the due diligence for the successful amalgamation and the answer to questions related to the human due diligence model:

- What are the most important factors in the altered human resources due diligence model?
- Do practitioners believe that an altered human resources due diligence model will be more useful for successful M&A transactions?
- Is the human resources due diligence model and due diligence process practically applicable for the practitioners who deal with international M&As?

In order to answer the above research questions we created the altered human resource due diligence model which include, inter alia, the humans, cultural aspects, the integration planning and information issues. These factors mentioned are in our opinion the most important elements of the altered human due diligence model. Managers who are responsible for the deal should pay attention to the human part of the companies. They should analyse the cultural differences between the acquiring and acquired companies. They also ought to create the information flow for the M&A process by analysing and integrating the existing information systems in both companies. We based our findings on two hypotheses

which state *analysis of cultural differences is indispensable in a human due diligence and a proper information and communication system has to be included in a human due diligence model, to create a successful combination of two companies into one.*

But the analysis and investigation of all aforesaid factors are not enough. It is necessary to plan the cultural combination of the companies in advance. The process of the planning should start during the due diligence and continue till the contact is signed. This statement was proved during our empirical research by the last hypothesis which assumes that *a cultural combination plan should start in a due diligence as soon as possible*

The empirical survey enabled us also to answer the last two research questions. The personal interview and the results of the online questionnaire allowed us to assume that practitioners believed that our altered human resources due diligence model might be more useful for successful M&A transactions. On this basis we also presumed that the altered human resources due diligence model and due diligence process would be applicable for practitioners who deal with international M&As.

8.2. Summary of the Dissertation

This dissertation presents the critics of a successful due diligence and thus difficulties of a well done merger or acquisition as well as where there should be more attention in order to conduct a successful M&A. It is assessed that during the due diligence process the highest focus is on the financial, legal and commercial issues. Also the part of the human resources is mostly just focused on the legal and financial items. Since the future performance of the combined company has a high connection to the employed staff we focused on the human and cultural side of a due

diligence. It is investigated, what managers have to be aware of, how communication and integration of employees should be managed as well as the combination of different cultures. Therefore we developed an altered human resources due diligence model. In that it is explained how we think a human due diligence should be prepared and what has to be included. The altered human due diligence model is in the core points abutted to the common due diligence points of PWC (2005). To their generally explained topics, we added issues for the planning, where we think, they should be done, namely before the contract is signed. Since the culture is highly connected to the employees of a company, we added the cultural part to the altered due diligence model. This is presented in figure 5. in the chapter about the analysis of cultural differences and creation of a cultural combination plan. We present three possible ways to tackle the problem of bringing two business cultures together. Furthermore it is explained how the integration of humans and their culture can be fulfilled, which has to receive more attention and how the problem of bringing two business cultures together might be tackled.

In the analysis a questioning of consultants is presented which shows, how far companies already think about the in the beginning mentioned issues as well as why the respondents believe that an altered human resources due diligence model will be more useful for success in M&A transactions.

8.3. Applicability of the Method

The altered human due diligence model allegorise the result of our research. It can be seen as a guideline to describe how problems, which may come up in an M&A process can be solved. The dissertation is not a

guide which presents a solution how it should be done step by step. Because of the diversity of humans and cultures, it is a good deal more an appraisal about failures, requisites for success and hypotheses we developed to create value by M&As.

In the global world of business there are so many differences between companies that it is too much to say that this model is applicable for all M&A processes. Since there are limitations mentioned before the model is focused on the buying process. By the fact, that we were not able to escort a buyer due diligence we have no practical test of our theoretical model. The interview and the survey demonstrate to us that the model is one step to a more successful merger or acquisition.

Nevertheless, depending on the concerned company, there might be problems and obstacles to implement the altered due diligence model. It is easier to implement ideas into existing systems than to change them entirely, which does not mean that an invalid system gets better if there are some good ideas. Such a system has to be changed by the motivation of creating value. This has also been one of our main aims by creating our model.

The problems of applicability can be multilateral. As aforesaid in private small and medium sized companies there are mainly personal issues, why a model, as it is explained, is hard to adopt. Also the apprehension that company secrets and specifications can be betrayed too early or especially in the human part the revelation of high potentials or key employees is the cause why a more detailed investigation of the business it is not common.

In bigger companies, human and cultural issues during a due diligence are done with a bit more effort, but often driven by financial considerations, i.e.

“US based managers may make much more salary than European managers, but have fewer vacation days” (comments from the questionnaire). Even if in some mergers or acquisitions human and cultural issues are represented, they are always challenged because of their expenses. To facilitate the implementation, it is important to have the understanding that these expenses are no costs rather they are investments in the future performance of the new business.

Furthermore the faith in employees and the establishment of an efficient information system, as it is described in chapter 5, can come up with difficulties by the implementation of our model. This is an object of psychological issues, mainly seen in small and private owned enterprises, which could be a matter of further investigation to expand the applicability of the model. These might be obstacles and problems as to the applicability of the altered human due diligence model. Should it be possible to solve them, it would be the first step to a better applicability.

After concluding our survey we can state, that the idea of the altered human due diligence model can be utilised. This means that the workforce and their business culture will be appreciated and understood as a part of the new organisation as well as the financial, commercial and legal issues.

8.4. Modification

By developing the altered human due diligence model, we searched for notes of other researches about problems and dilemmas after a merger or acquisition. As explained in the beginning thereby we focused on the human and cultural issues, which are so far underestimated in the common M&A process. Therefore we analysed difficulties and criticisms

which are connected to the human and cultural issues. Meanwhile we found out that relating to our topic, items as planning of integration, communication, the involvement of company owned employees and the assignment of consultants can arise with difficulties.

In the altered human due diligence model we tried to find an answer to these difficulties. The model is based on the common items of a human and cultural due diligence. The modification of the common model to our altered model arose through the complementary addition of the analysed and above mentioned items. As also mentioned at the beginning of chapter 5 we placed tasks from other stages into stage 2, in which the due diligence is done.

We also decided to connect the cultural part to the human part of a due diligence, because out of our experience and research arose our belief that they are depending on each other. A good and deep understanding of these two factors enables a company to a positive influence by process it in other areas. In conclusion the altered due diligence model is a more detailed and expanded form of the common due diligence model which arose by studying our findings.

After our survey and the interview with the professionals we saw that our model is a step in the right direction. Also the survey presents that in the personal opinion of the respondents, integration planning has to be started early at the beginning of the M&A process. In fact this did fit together with our other findings and the other results of our investigation, so we decided to have no changes in our model. This is also based on the analysis of the comments we got from some respondents which underlined the impact of the integration planning. A directed practical investigation could give more precise answers to the applicability of the model and with it information of

errors and changes which have to be made because of practical impossibilities to implement the model.

8.5. Methodological Improvements

Our research was conducted by means of the online questionnaire spread in 22 countries to 142 consultants associated in the international advisory network IMAP. Questions tested the altered human resource due diligence model and the hypotheses referring to our theory. Although the questionnaire included blank space to fill in, responses with comments were few and we did not get the feedback we had expected.

In our research we also used a personal interview as the pilot test of the questionnaire. This enabled us to make some changes to the questions and form their final version. During the interview we received much useful information from the practitioners' point of view. This made it possible for us to assume that our research and theory concerning the altered human due diligence model and due diligence process was on the right way.

If we had undertaken a personal interview with all consultants we had sent the questionnaire to, we would have obtained more information and been able to discuss more deeply particular points of the model and theory relating to the due diligence process.

However, due to the time and money limitation we decided to conduct the questionnaire instead of the personal interview on the large scale. One of the shortcomings in our survey was the small rate of responses. The questionnaire was sent to 142 consultants and we got 20 answers back. Thus, the response rate was 14.1 %. Yet the consultants, for the sake of

our time limitation, had a short time to answer. After 5 days of the delivery of the questionnaire we obtained 11 responds, then the reminder was sent and finally the questionnaire concluded with 20 answers in 8 days. It allowed us to make the premise that if the questionnaire had continued a longer period of time, the response rate would probably have been higher.

As mentioned above we decided to carry out the online questionnaire with international consultants who deal with the due diligence as their daily work. Surely, if the questionnaire had been sent to the managers in the acquired or acquiring companies, the answers would have varied and given another view of the due diligence conception. Another way of getting the detailed and in-depth knowledge about our research topic, could have been to conduct a personal interview to managers who took part in the process of the cross-border amalgamations. Their participation would have enabled us to deeply test the altered human resource due diligence model and check if our theory is applicable in practice. However, the best way of the survey would have been to do a practical test of our model by its implementation in the process of due diligence during the international M&A. Our direct participation of the due diligence process in the company would have allowed us to test whether our research theory concerning the altered human resource due diligence model and the due diligence process has a chance to be brought into effect in the real cross-border deal.

However, due to the time and financial limitation our research was based on the online questionnaire undertaken with the international consultants and we believe that the applied methodology was the most applicable for the survey in our dissertation.

8.6. Future Research

The purpose of our dissertation was to create the human resources due diligence model and improve the due diligence process, which could present useful hints for the managers and consultants participating in the process of the M&As.

We believe that the theory described in the research sufficiently expressed what ought to be included in the human resources due diligence model and characterised what should be taken in to particular consideration during the due diligence process.

The results obtained from the questionnaire allowed us to assume that our altered model is appropriate and applicable in practice. However, the due diligence issue is a very broad and interesting concept to investigate. Thus it would be inspiring and valuable to research this subject in the future.

To get a comprehensive view of the area of the due diligence it would be valuable to test our theory on managers employed in the acquiring or acquired companies. Also conducting the personal interviews instead of the online questionnaire would give more explanation and support or let us insert more changes to the research theory.

As we mentioned above the response rate of the questionnaire was 14.1 % and it brought the legitimacy of the generalisation of our research into question. Thus in a future conducted eye-to-eye interview with the large sample of the international managers involved in the due diligence process would allow the researcher to reject some parts of the altered due diligence model or to prove them. However, to be totally convinced that our research theory is applicable in practice it would be valuable to test the

altered human due diligence model as a part of the whole due diligence process in a company that is going to enter into the M&A process.

The interesting issues to investigate in the future research would also be to evaluate the importance of the human due diligence in the whole due diligence process. What impact has the deep audit and the analyses of the human part for the success of the due diligence process?

During our empirical survey we drew the conclusion that the private small and medium sized enterprises, compared with the international corporations, underestimate or even ignore the significance of the human due diligence because of the many psychological reasons such as fear of the disclosure of the confidential information or the inertial human policy of the company. Studying foregoing phenomena seems to be an interesting issue for future research as well.

As the business world is constantly in progress and the science is in needs of developing in order to follow it, it appears valid to repeat the research in the future.

8.7. Practical Implications

In our opinion the altered human resources due diligence model and theory concerning due diligence process included in our research is the most important implication for the consultants who investigate the target company for the prospective international amalgamation. The model is also applicable for consultants advising management and owners of the company who intend to undertake successful cross-border deals in the future.

We also believe that our research presents helpful implementation for managers and practitioners who are responsible for conducting international M&As. They might gain from our altered human resources due diligence model and explanation of the due diligence process some useful information. This information may show them on which factors there ought to be paid more attention during the process of the deal.

The survey also pointed out the issues that need deep insight, as they were usually underestimated during the process of the M&A and could hamper the completion of the deal.

We dare to state that our altered human resource due diligence model and the description referring to the due diligence process will help managers, consultants and all practitioners to conduct cross-border deals or M&As successfully.

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PWC: <http://www.pwc.com>

Appendix

Appendix 1: Classifications of Mergers and Acquisitions.

The distinction between ‘friendly’ and ‘hostile’ acquisitions mentioned in the chapter 3 is one of the dimensions of the classification of mergers and acquisitions. It refers to the degree of cooperative relationship between the acquirer and target company. According to Pritchett (1985) there might be distinguished four categories of mergers and acquisitions based on a cooperative–adversarial attitude: *organizational rescues*, *collaborations*, *contested situations*, and *raids*. Regarding his theory in an *organizational rescue* the most cooperative relationship is between the acquirer and its target, while a *rapid* merger or acquisition is “hostile in nature and creates the most adversarial form of amalgamation”. (Buono & Bowditch 2003, p.65).

In the deal recognised as *organizational rescue* one company comes to another for ‘aid’. There are two forms of *organizational rescue*: *financial salvage* and a *friendly alternative to a hostile, unwanted takeover*. “In both cases, the acquired company is looking for some form of relief” (Pritchett 1985A; cited by Buono & Bowditch 2003, p. 65).

In a *financial salvage operation* usually the target firm is in financial difficulty and a merger is seen as an ‘aid’ which will enable it to stay in business. In contrast, to be rescued by a ‘white knight’, when the target company is doing quite well from both a financial and managerial perspective, the merger might be seen “as the ‘salvation’ of the company from the ‘enemy’, in the situation when the company confronted with a hostile takeover from an unwanted suitor” (Buono & Bowditch 2003, pp. 66-67).

Most mergers and acquisitions are *collaborative* in nature. It means that the company going to be merged or acquired come up to the negotiations with a good faith and diplomacy. “The general emphasis in pre-merger bargaining is on creating a fair deal for both firms. Collaborative M&A tends to create an atmosphere of mutual respect and understanding, especially among those consummating the deal” (Buono & Bowditch 2003).

Contested mergers and acquisitions are described “by increasing amounts of resistance on the part of the acquired company and by aggressive negotiations, while not as personalized and emotional as corporate raids, are tension and anxiety provoking”. In a contested amalgamation, only one of the companies has a strong interest in consummating the deal. On the other hand the two companies might want quite different arrangements (Buono & Bowditch 2003, pp. 68-69).

A hostile takeover of one company by another that produces the greatest amount of uncertainty and resistance is known as *raid*. It is the most adversarial form of acquisition. In corporate raids, the acquiring organization gets round the target’s management and goes directly to its stockholders with an offer. This approach enables shifting control of the target company from the present management team to that of the raider (Fray, *et al.*,1985; Schweiger & Ivancevich, 1987 cited by Buono & Bowditch 2003, p. 69).

According to the literature another classification of mergers and acquisitions distinguishes five basic types of amalgamations: *horizontal*, *vertical*, *product extension*, *market extension* and *unrelated* (Buono and Bowditch 2003).

Horizontal amalgamations occur when the company involved produces one or more of the same or closely related products or services in the same geographical market (Buono & Bowditch 2003).

Vertical merger or acquisition takes place between companies that had an actual or proper buyer-seller relationship prior to the combination. This type of M&A usually occurs in industries with a high promise of growth (Smith 1985). The amalgamation when the company chooses to acquire a supplier in order to reduce the uncertainty in its environment and get more control over its operations, is called *backward integration*. The company may also want to distribute its products. This kind of merger is recognised as *forward integration*. (Buono & Bowditch 2003).

M&A is described as a *product extension* when the acquiring and acquired companies are functionally related in production or distribution but sell different products. This type of organizational combination is also known as concentric diversification (Buono and Bowditch 2003).

When the acquiring and acquired companies produce the same products but sell them in different geographical areas, an amalgamation is recognised as *market extension* (Buono & Bowditch 2003).

The last type of acquisitions, also described as a conglomerate diversification strategy, is *unrelated amalgamation*. This combination occurs between two or more unconnected companies (Hopkins 1983; cited by Buono & Bowditch 2003).

Appendix 2: Importance of due diligence in the merger & acquisition process according to KPMG

An important explanation of due diligence, which is often used in the merger & acquisition business, is a KPMG-study, made in 1999. The KPMG research tries to show the influence and importance of factors, which give a merger & acquisition deal a better chance for success. In the research they show that a due diligence is just a small piece of influence during the merger & acquisition process that affects if a merger or an acquisition will be a success or failure.

KPMG divided the merger & acquisition process into two different stages, the hard keys and the soft keys to measure the importance for a successful merger or acquisition.

The hard keys according to KPMG are mentioned as synergies, integration project planning and the due diligence. Synergies, with an influence of 25%, might be the most important factor for a success in merger or acquisition. The integration planning is with 12% responsible for success in merger or acquisition and a proper due diligence is only 5%. According to the soft keys of KPMG, the selection of the management team and resolving cultural issues, both 23%, are equal in importance to reach success in merger or acquisitions. The communications have not a huge influence of success or failure, only 12%.

Getting the soft keys right, totally 58%, is more important to increasing the chances of deal success than getting the hard keys right, totally 42%. In this KPMG study the due diligence is only 5% responsible for success in merger or acquisition. But an important factor is that the due diligence is the first step to contact a target company. Due diligence must be seen as the critical stage in a merger or acquisition. If something goes wrong in the

due diligence, it might affect the integration planning, communications, synergies, the selection of the management team and the cultural issues. Because these factors are all closely connected to each other. The due diligence is underestimated in the study of KPMG, due diligence is fundamental in a merger or acquisition and closely connected to the other issues which might be affected positively in a good due diligence and negatively in a bad due diligence.

Appendix 2.1: Due diligence focus on a specific item

Financial Due Diligence

A Financial Due Diligence is carried out by an accountant. The accountant is doing his work, most of the time, by analysing the figures of a target company before a deal is completed. The research of the accountant concerning questions like:

- Will the future performance of the target company be similar to or different from the past?
- Are the relationships with the customers stronger to continue?
- Are the margins of the products not under pressure and is there some space in between to make profit.
- Has the target company been worked according to the accounting policies in the past?
- Are there no extreme, vague liabilities like very high maintenance costs?

(Howson, 2003)

A Financial due diligence is a way to find out how the target company performed in the past but it can also create a good argument in the negotiation process, to reduce the price. The accountant may also connect his view to other areas: Will this company fit in the strategy of the acquiring company or are there any synergy advantages which can be taken? But the main purpose is to make sure that there are no unexpected surprises that might be big enough to break the deal.

Legal Due Diligence

The Legal due diligence takes a central part in the merger or acquisition deal because it forms a basis for the sale or purchase agreement. The lawyers will also look at the legal structure of the company. This is important because many legal problems arise when a company leaves a group or a company split up in two separated companies. Legal due diligence is mainly focused on three specific items:

- To uncover potential liabilities. (Some liabilities are not normally taken over by the purchaser)
- To find legal or contractual obstacles. (Inspecting documents, checking certifications of the shareholders)
- To form the basis of the final agreement.

(Howson, 2003)

Commercial Due Diligence

In commercial due diligence it is all about looking forward to the future. Commercial due diligence is the investigation of a company's market, competitive position and tries to put the two strategies together and look at the future prospects.

In a commercial due diligence there are three aims:

- Reduce risks, the purchase price will show the value of the target company, but if the performance in the past cannot be guaranteed in the future (because of changes in the market or competition) the price should decrease.
- commercial due diligence helps to calculate the value of the target company. By buying a company you cannot rely on historic figures; you also have to pay attention to the realistic future performance.
- To help by the set up of a future plan, bad integration is the major reason why acquisition fails. Commercial due diligence examines the target's market and commercial performance. It identifies strengths and weaknesses, which should be mentioned as part of the integration process.

(Howson, 2003)

In the commercial due diligence it is important that the purchaser gets a clear perspective and confidence that the deal will work out and the strategy will fit. Cost saving aspects is often an item that is involved. Synergy advantages or economies of scale in R&D, sales and distribution capability are important reasons why companies choose an acquisition.

The due diligence takes place in the pre-acquisition stage. A different point of the commercial due diligence compared to the others is that commercial due diligence focuses mainly on the post acquisition process, to achieve growth in sales, profit or market shares. It should try to make a combination between two strategies of two different companies.

Besides the financial, legal and commercial due diligence there are other due diligence disciplines. The other due diligence disciplines have to be researched as well, during the merger & acquisition process, but the disciplines are not really qualified so important as the due diligence, from a

financial, legal and commercial perspective. The other due diligence disciplines are: due diligence in human resources, management, pension, tax, environment, IT and technique. It depends on the company, industry or country if these areas have to be qualified as important so that a due diligence in a specific area is necessary. For example, a technical due diligence is not necessary if the target company has no technical issues to work with. A due diligence with the most difficulties is a due diligence in Intellectual Property. The target company might have a specific knowledge or skills. Mostly the target company does not want to show the specific knowledge because the competitor can implement this knowledge. But the acquiring company wants to know what it is buying. In a due diligence where intellectual property is involved there are contradiction between the two parties because of differences in interest without the possibility to show every specific detail of the knowledge or skills.

Human Resource Due Diligence

In a human resource (HR) due diligence it is about analysing and investigating the culture of the company and its employees. The human resource due diligence is often underestimated and the findings are often not integrated with the rest of the due diligence. This could be the cause why so many merger & acquisitions fail. The human part in a due diligence seems to be the most important part. The employees of two independent companies have to work together from one day to another. The employees are the key people between the management and the customers and are able to influence the performance of the product or service. If you ignore the employees in a merger or acquisition process a problem will arise.

When the employees receive the news that a merger or acquisition is a serious possibility in the company they work for, a high uncertainty among the employees will arise.

The human due diligence is often presented from a legal point of view because there is very much legislation involved.

The objectives of HR Due Diligence should:

- Identify any potential deal breakers in the human part.
- Discover specific liabilities which can be used in the negotiation process.
- Assess the potential costs and risk (cultural differences) and the strategy which should be needed.
- Identify HR issues that will be needed during the integration and post-integration process

(Peter Howson, 2003)

The planning of the HR due diligence depends on the reasons for the deal, what the goal is and what you want to reach, the type of business and which market is involved.

In a HR due diligence it is hard to interpret what the important issues are because no two deals are the same and at least no two persons are the same. Standards that generalize the human due diligence are hard because there are no two companies exactly the same.

Other aspects that play a role in the human due diligence are: Constraints on Information Gathering, the Data Protection Act (only EC), TUPE (Transfer of Undertakings Protection of employment), governed by the Acquired Rights Directive (only EC), Variations in labour law (concerned cross border M&A), employee information, HR contracts with the unions and collective agreements, payroll information, staff structure, staff terms and conditions, industrial relations (Union representation), relations with statutory bodies, European work councils, redundancies and the last one which could be critical, the cultural issues.(Howson, 2003). The cultural

issues represent an important part in our dissertation but is often underestimated or even ignored.

Appendix 2.2: Different Types of Due Diligence

The most common and traditional due diligence is the Buyer-Due Diligence focused on the purchase of a private company. The buyer due diligence is the most common due diligence. A company is interested in a specific target company. After making the due diligence the company may find out if it wants to purchase or not. The explanation of the due diligence explained above is mainly focused on the buyer due diligence type

The second due diligence is the vendor due diligence and this is the name for a due diligence that is organised by the owners of the company who try to sell the business. It is a preparation for selling a company. Because the vendor due diligence is organised by the seller there are different purposes and issues involved, compared to the common due diligence carried out by the buyer.

A vendor due diligence is often to control the information flow and to create a negotiating advantage and keep the price high. But there are other important reasons to carry out a vendor due diligence:

- To allow the seller to provide a quick information flow for the buyer and therefore further access to management and customer information is not necessary;
- To hide all the bad news and negative aspects for the buyer, so discovery of problems later is not used to negotiate a lower price;
- To stop management, advisers, customers and suppliers from asking “difficult” questions;

The main focus of a vendor due diligence is to raise the price and to let the company better than it is in reality. The reason for the seller might be that the buyer will otherwise discover problems that will help them to negotiate a lower price or cancel the merger or acquisition. Useful advice for the buyer is, to be really careful when someone presents a vendor due diligence because you cannot be sure that some hidden aspects are not in the company. It is important for the buyer to read between the lines and to contact the firm who carried out the vendor due diligence.

The third due diligence is due diligence in Public Bids and this due diligence is very different compared to due diligence in private or semi-private transactions. There are two different ways of public bids, the hostile bids and the friendly bids.

With hostile bids the internal information from the target company is not that important and often ignored. The buying party rely more often on the view of external professionals and experts and public information. If a public bid is friendlier, the flow of information is a sensitive point when competitors are trying to eliminate each other when buying the company. In the UK there is a law that says, where there are competitive bids the target company has to supply the same information to the new bidder as it did to the first bidder. But in reality it is hard to provide exactly the same information to both companies, because the information will be given at two different moments and the persons who are involved could be different.

The fourth due diligence is due diligence in Public Offerings, due diligence for an offering of securities is different from that in a common acquisition. The main focus is on complete and reliable information about the target company. This is to prevent that the persons who carry out the transaction (underwriters) do not misrepresent the information to the potential buyers.

The fifth due diligence is the due diligence when buying from the receiver; due diligence from its receiver is focused on a special problem area. Receivers often allow buyers only a few days to complete a deal. The problem area which is involved here, is the time aspect because the due diligence in a receivership is often more important than in a common buyer acquisition. If the buyer does not enough time to carry out a good due diligence, it has to consider to cancel the deal. However cheap the deal seems to be, if you do not have information about what exactly the company tries to buy it could be very expensive when the deal is closed and several unexpected problems are coming up. The most important issue is that the price is so low that a few risks are worth it to complete the deal anyway. But the risk can be huge and it is often mentioned that warranty protection does not exist.

Appendix 3: Cover letter

Dear Sir or Madam,

We are three international students from Kristianstad university (Sweden) who are writing our Master thesis about human and cultural due diligence. We altered the common and existing human and cultural due diligence process. In order to proof our studies we would like to check it by a survey. During our research we have come across IMAP and we are happy that we could win IMAP over as a strong and global partner in the M&A business. Hereby we especially appreciate, that Nordic Merger helped us to precise and launch our questionnaire in the network of IMAP.

Please help us by filling in the questionnaire. You will find it by following this link:

<http://survey.pagepartner.com/due-diligence/>

It will take about 10 to 15 minutes to fill in the 24 questions and as a matter of course we will treat your answers confidentially. The survey will be online till Friday the 18th of November.

To show our appreciation of your effort and that your answer is great help for us, we will send you the result of our study. Therefore please enter your email address after the questionnaire. Whether you have any further questions or you feel uncertain about anything please do not hesitate to contact us.

Thanks a lot in advance for your help.

Best regards

Monika Wlasynowicz

Wenzel Freiherr von der Heydte

Marvin Bonsen

Appendix 4: Survey

Survey to Analyse an Altered Due Diligence Model

Part 1: General Questions

Q01: Please select the country you are from.

Please choose **only one** of the following:

Argentina	Italy
Australia	Japan
Austria	Mexico
Belgium	Netherlands
Brazil	Norway
Canada	Poland
China	Singapore
Czech Republic	Spain
Denmark	Sweden
Finland	Switzerland
France	United Kingdom
Germany	United States

Q02: What kind of sector are you mainly working for?

Please choose **only one** of the following:

Automotive
Business Services & Distribution
Energy
Food
IT & Electronics
Packaging & Logistics
Live Sciences
Other

Q03: In the merger and acquisition business, one common and traditional due diligence is the buyer-due diligence. The buyer due diligence is focused on the purchase of a company, a company which is interested in a specific target company. After making the due diligence the company may find out if to purchase or not.

Q3a. Do you have experience in carrying out a buyer due diligence?

Please choose **only one** of the following:

Yes
No

Q03b: How many due diligence have you been involved in during the last 12 months?

Please choose **only one** of the following:

- None
- 1 to 2
- 3 to 4
- 5 to 6
- 7 or more

Q04: In what kind of deals are you mostly involved?

Please choose **only one** of the following:

- Selling Companies
- Buying Companies
- Management Buy Out (MBO)
- Management Buy In (MBI)
- Other

Q05: Are you mostly involved in national or international mergers or acquisitions?

Please choose **only one** of the following:

- National
- International
- Both

Q06: Did you find any differences in doing a national or international due diligence?

Please choose **only one** of the following:

- There are no differences!
- Yes, there are differences!

Make a comment on your choice here:

Q07: For which part of the due diligence have you been working?

Please choose **only one** of the following:

- Financial due diligence
- Legal due diligence
- Commercial due diligence
- Human Resource due diligence
- Other

Q08: From which area did the partner company mainly come from, when you were carrying out a due diligence in the last six months?

Please choose **all** that apply:

Europe
North America
South America
Africa
Middle East
Australia
Russia
Other:

Part 2: Communicational Issues

The management of information can be a powerful instrument, which should be used in the most efficient way to reach the company's target. A proper information and communication system is an important issue. 'Proper' from our point of view is an obvious and useful model, which shows the steps of an information and communication flow with clear tasks and responsibilities for employees.

Q09: Do most of the client companies have a proper information and communication system for the M&A process? (1=Strongly Agree, 7=Strongly Disagree)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q10: Please evaluate the information and communication system in most of the client companies? (1=Excellent; 7=Poor)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q11: In international mergers and acquisitions it is often mentioned that a cultural clash may exist. An open information and communication system might clarify the differences in cross cultural aspects, e.g. national differences in values, norms and traditions.

Did the information and communication system pay attention to the cross cultural aspects? (1=Strongly Agree, 7=Strongly Disagree)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q12: In which stage, during an international M&A process, is the main focus on cross cultural aspects spend? Hereby we mean the investigation and analysis of differences between the national differences in values, norms and traditions? (1=Strongly Agree, 7=Strongly Disagree)

Please choose the answer that is closest to your personal experience.

Please choose the appropriate response for each item:

Before the due diligence there is a main focus on cross cultural aspects 1 2 3 4 5 6 7

During the due diligence there is a main focus on cross cultural aspects 1 2 3 4 5 6 7

During the negotiation there is a main focus on cross cultural aspects 1 2 3 4 5 6 7

After the deal is signed, in the integration process there is a main focus on cross cultural aspects 1 2 3 4 5 6 7

Part 3: Involvement of Consultants

Q13: When do you mostly start your work as a consultant company, during an M&A process?

Please choose **only one** of the following:

Before the due diligence
During the due diligence
During the negotiation between the acquiring company and the target company
After the deal is signed, during integration

Q14: It is often mentioned that in a merger or acquisition the first 100 days after the deal is signed are critical for success or failure. When do you, as a consultant company, complete your work and reach the finishing touch with the client company in the merger or acquisition process?

Please choose **only one** of the following:

After the due diligence
After the negotiation
After the deal is signed, in the integration process but before the critical 100 days expire
After the integration process, when the post acquisition stage is ended but before the critical 100 days expires
After the integration process and after the critical 100 days expire
Other

Part 4: Planning Issues

Q15: Did the client company put effort into the planning of the integration process? (1=Yes, absolutely; 7=No, not at all)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q16: When did the acquiring company start with the planning of integration of the two companies? (1=Yes; 7=No)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

During the due diligence	1 2 3 4 5 6 7
During the negotiations	1 2 3 4 5 6 7
During signing the deal	1 2 3 4 5 6 7
After the deal has been signed	1 2 3 4 5 6 7

Q17: Do you personally think that it is important to start with the planning of integration during the due diligence? (1=Strongly Agree; 7=Strongly Disagree)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Part 5: Involvement of Client Companies Own Employees

For the involvement of employees we identified blue- and white-collar employees. We mention the blue collar workers as the people working on the assembling line in the factory. White-collar employees are the employees working in the office.

Q18: Who were involved into the due diligence process? (1=Yes, absolutely; 7=No, not at all)

Please choose the appropriate response for each item:

Top management	1 2 3 4 5 6 7
The head of the departments	1 2 3 4 5 6 7
Specialists of the company (for several specific problems)	1 2 3 4 5 6 7
Consultants	1 2 3 4 5 6 7
White collar employees	1 2 3 4 5 6 7
Blue collar employees	1 2 3 4 5 6 7

Q19: Do you, personally, think that it is important to involve white collar employees in the due diligence process (except union representatives)? (1=Strongly Agree; 7=Strongly Disagree)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q20: Do you, personally, think that it is important to involve blue collar employees in the due diligence process (except union representatives)? (1=Strongly Agree; 7=Strongly Disagree)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Part 6: Cultural Issues

Q21: How high has the attention on the cross cultural issues been during the due diligence, the investigation and analysis of differences between the national differences in values, norms and traditions? (1=Excellent; 7=Poor)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q22: By studying the problems of cultural differences we found three perspectives of cultural combinations.

- a) The integration of both cultures into one new common company culture.
- b) The differentiation, which accentuates subcultures and the differences between them, for example the difference between marketing culture and engineering culture.
- c) In the third perspective, ambiguity, the company culture is, viewed as spitted, existing of many subcultures with both different and shared values. After the deal, each company keeps its culture independently and tries to take advantages from each other. Hereby people with different cultural backgrounds bring different meanings, values, and assumptions into workplace related conversations.

Please evaluate the different perspectives of cultural combination. Which of them would you mainly prefer? (1=Most Preferred; 7=Absolutely Not Preferred)

Please choose the appropriate response for each item:

- a) The integration of both cultures 1 2 3 4 5 6 7
- b) The differentiation between the cultures 1 2 3 4 5 6 7
- c) The ambiguity, were they keep the cultural differences in the two companies as they were before 1 2 3 4 5 6 7

Q23: In how many companies do cultural problems after the period of integration still exist? (1=In All; 7=None)

Please choose the appropriate response for each item: 1 2 3 4 5 6 7

Q24: If you fill in your email address, we will send you a result of our work as acknowledgment of our gratitude.

Please write your answer here:

Submit Your Survey.

Thank you for completing this survey.