Drivers and Performance Factors of Mergers and Acquisitions - A Case Study at Deutsche Post DHL

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ABSTRACT

This thesis explores and evaluates the drivers and performance factors of merger and acquisition (M&A) activity at Deutsche Post DHL (DPDHL). Furthermore, the “success paradox” related to M&A found in theory is addressed by analyzing how well it rhymes with the activity and performance of M&As at DPDHL. The methodology used to reach the aim can be characterized as an explorative and qualitative case study with an inductive approach. We review literature and interview stakeholders both within and outside the DPDHL group to present an in-depth view of the drivers causing M&As and factors affecting the performance of the transactions at DPDHL. Consequently, it has been possible to reach reality driven conclusions and recommendations tailored for DPDHL. We found that the success rate of M&A transactions at DPDHL is high and primarily triggered by strategic motives, such as achieving market power, acquiring capabilities, accessing new markets and to follow customers. In addition, we found that overall, DPDHL has systems and procedures that are consistent with theory findings and views of practitioners. However, we found two improvement areas for the overall success rate of transactions at DPDHL. Firstly, the biggest change for DPDHL going forward will lie within post-merger integration and management. There is a need to develop an independent, non-political, and transparent setup for M&A teams to better integrate and track performance after each transaction. The aim should be to create local ownership at all levels to better reap synergy effects. Secondly, there is a potential benefit to streamline the strategic models used to retain key people after the M&As. Moreover, relating the findings of the study to the “success paradox”, we argue that success ought to be measured on multiple motives instead of by only measuring financial outcome of deals as done historically. In our view, the inadequate measurement of M&A performance is a reason for the seemingly high failure rates found in empirical studies. It would only be logic to measure the success of something by assessing whether or not the motives were achieved, be that strategic or financial.
ACKNOWLEDGEMENTS

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1. **INTRODUCTION**

The introduction contains a background, the problem statement, aim of the thesis, research questions, delimitations, definitions and lastly a disposition of the thesis.

1.1. **BACKGROUND**

In November 1999, the UK telecom company Vodafone initiated a hostile takeover of rivaling German Mannesmann which months later saw the UK firm pay up approximately $181 billion, resulting in the largest acquisition to date (WSJ, Feb. 2000; The Telegraph, Apr. 2016). The spectacular deal created the then largest company on the London Stock Exchange and the fourth largest in the world (BBC, Feb. 2000). Interestingly, the 109-year-old Mannesmann unsuccessfully opposed the deal even though they size wise dominated the smaller, and only 15-year-old, Vodafone (table 1). Mannesmann, with revenues exceeding €23 billion and 130,860 employees outperformed the €13 billion in revenues and 13,069 employees of Vodafone (Höpner & Jackson, 2006).

What made the deal even plausible was Vodafone’s extremely high market capitalization (price-to-book ratio over 125), making it possible to offer its own stocks to the shareholders of Mannesmann to cover the bid.

**Table 1. Key financials of Vodafone’s takeover of Mannesmann. Source: Höpner & Jackson (2006)**

<table>
<thead>
<tr>
<th>(MEUR)</th>
<th>Mannesmann</th>
<th>Vodafone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>23.265</td>
<td>13.069</td>
</tr>
<tr>
<td>No. of Employees</td>
<td>130,860</td>
<td>29,465</td>
</tr>
<tr>
<td>EBITDA margin (%)</td>
<td>18.45</td>
<td>40.25</td>
</tr>
<tr>
<td>Market capitalization</td>
<td>119,572</td>
<td>149,400</td>
</tr>
<tr>
<td>Market cap. to revenue</td>
<td>5.14</td>
<td>11.40</td>
</tr>
<tr>
<td>Price-to-book value</td>
<td>10.2</td>
<td>125.5</td>
</tr>
</tbody>
</table>

Although the deal in 1999 continues to be the single largest deal in merger and acquisition (M&A) history, the records for both the number of transactions and the total value of them have been shattered multiple times since then (Weber et al., 2013; Institute for Mergers, Acquisitions and Alliances, 2017). In 2015 alone, global M&A deal value surpassed $4.3 trillion and 45,000 transactions (Statista, 2017; Thomson Reuters, 2017). Bloomberg (Jan. 2016) holds that figure at $3.8 trillion but nevertheless, it concludes that 2015 broke the record for both the total deal value and number of deals, and in a later article (Oct. 2016), that the number of $10 billion deals (52) also reached historically high levels.

The presence of M&A as a strategic tool to – among other things - gain competitive advantage, penetrate new markets, create synergies and diversify risk is significant (Porter 1987; Harrigan, 1983).
1.2. Problem statement

According to Weber et al. (2013), at least 50% of M&A deals conducted over the past decades have been unsuccessful. Also, in recent years, the percentage of companies that failed to achieve their market share and profitability goals reached 83%. Despite this, the slope in the number of M&As as well as the total value of the deals completed worldwide are increasing, giving birth to the expression "the M&A success paradox". Practical aspects leading to the low rate of success include inability to realize synergy potential, poorly executed post-merger integration and lack of clear strategic direction. (Weber et al., 2013)

Theoretically, Brouthers et al. (1998) argue that one of the main reasons for the seemingly low success rate can be attributed to inadequate measurement of M&A performance. Most empirical studies only measure the performance using financial motives and are therefore misleading as multiple motives would be more relevant (Brouthers et al., 1998). They further reason that value destructing motives, such as CEO hubris and managerialism also play a part, something that Cartwright and Schoenberg (2006) also conclude. It is therefore important to mention that failure in M&A depends on the definition of failure. If, for example, failure is defined as the ability to achieve strategically, nonfinancial objectives, then the failure rate is low (DePamphilis, 2012). The rate is also low if failure is defined as the sale or liquidation of an acquired business (DePamphilis, 2012).

Another effort to explain the phenomena was made by Cartwright and Schoenberg (2006) who coupled the success paradox to three possible explanations with some similarities to those given by Brouthers et al. (1998). The first reason being that executives might pursue their own personal agendas instead of the shareholders’, resulting in value destruction. The argument relates to the hubris hypothesis and principal-agency theory, which have been shown to indeed be a driver of deals (Roll, 1986; Varaiya, 1988; Malmendier & Tate, 2008; Gaughan, 2010). The second suggestion offered is that practitioners might be unaware of theoretical findings and insights provided by research. Nevertheless, this is deemed as not plausible as they conclude that there is both an abundance of coverage of risks associated with M&As in the financial press as well as high availability of literature oriented towards practitioners. The third explanation is that the research in some way is incomplete, which they lend some weight to as they see a need for more interdisciplinary research that can link advances and close gaps in different fields.

On the same subject, Cools et al. (2007) at the Boston Consulting Group view the failure rates accompanying M&As in a slightly different light. They argue that a biased mind-set plays a big role in the perception of the underperformance of M&As, offering following rationale:
“Specifically, one of our core arguments is that many of the popular assumptions that underpin today’s thinking about M&A are based not just on averages, but on unrepresentative averages invariably derived from small-case studies of particular industries, narrow time frames, or both. This has fueled a dangerous one-size-fits-all approach to M&A, contributing to the persistently high failure rate of mergers. The logical and empirical reality is that different types of companies in different industries require different approaches. And to understand their respective keys to success, a more nuanced and sophisticated perspective is required.” (Cools et al., 2007, p.7)

As demonstrated above, the topic of M&A is interesting from a theoretical point of view. Given the natural link between theory and practice, it is important for Deutsche Post DHL (DPDHL) to analyze their performance and learn about the factors that affect the performance.

DPDHL is a forwarding corporation with global presence that over the course of its 200 year history regularly has engaged in acquiring/merging with other firms. The objectives and factors indicating the likelihood of success of a deal varies from each transaction. Through acquisitions of actors within the forwarding industry, the company has been able to grow cross borders and at the same time strengthen its competitiveness. There is a goal behind each deal which is defined by the strategy of the company. By the nature of DPDHL as a company that has carried out over 250 transactions the past 20 years it is prudent to put the process, its know-how and best practices under scrutiny to increase the success rate. Currently the M&A team carries out approximately 10 transactions a year, but how well are they aligned with academia and what can they learn from it?

1.3. RESEARCH AIM
The aim of the thesis is to explore and evaluate the drivers and performance factors of merger and acquisition deals at DPDHL.

1.4. RESEARCH QUESTIONS
The thesis will be undertaken as an explorative and qualitative case study with an inductive approach. This means that, to fulfill the aim, we ask research questions that render answers that by nature are based on qualitative reasoning of the findings and can be customized to the case company. With this in mind, the thesis will have the following research questions:

- What are the drivers, motives and objectives that trigger M&A activity at DPDHL?
- What are the performance factors that define the success and failure of M&A transactions at DPDHL?
What can DPDHL learn from theory and practitioners from outside the group with respect to drivers and performance factors in order to better understand the performance of their deals?

The questions above are linked together in a natural way. Brockhaus (1975) and Seth et al (2002) underscore that the ability to fully understand the motives behind an M&A is imperative to effectively appreciate the performance of the transaction. Therefore, by answering the first research question, the second can be addressed in a different light, resulting in the answer of the third research question.

1.5. DELIMITATIONS
The scope of this thesis is, as suggested by the title and aim, limited to M&A at DPDHL. However, outside views will be taken into consideration to explore what and how DPDHL can learn from other practitioners. This thesis does not take into consideration macro-economic drivers behind M&A activity or motives that the acquired companies’ shareholders may have.

1.6. DEFINITIONS AND ABBREVIATIONS
Throughout this thesis, the words “merger”, “acquisition” and “takeover” are used interchangeably unless otherwise stated. Likewise, no distinction is made between the words “driver”, “motive” and “objective” with regard to reasons for why M&As are undertaken. Furthermore, Deutsche Post DHL is abbreviated just DPDHL. When writing DHL only, the text is referring to the logistics part of the firm.

1.7. DISPOSITION OF THE THESIS

The disposition of the thesis is structured as shown in figure 1. The first chapter introduces the reader to what will be studied, why it is studied and briefly how the thesis will be conducted followed by chapter 2, in which the case company is presented. In chapter 3, the theoretical framework necessary to address the research questions is built. The chapter focuses on the drivers and performance factors of M&As. The fourth chapter outlines the methodology used to achieve collect data needed for the empirical framework. The chapter is rounded up by a discussion on how to maintain a high research quality throughout the thesis and how to deal with source- and method criticism. In chapter 5 the empirical findings are presented jointed with the analysis that compares the theory with empirics. The last chapter contains a conclusion with recommendations for DPDHL.
2. **DEUTSCHE POST DHL**

This section introduces the reader to the case company Deutsche Post DHL and gives a broader view of the company’s history, core business and strategy. The information used in this chapter is all from internal documents, listed as DPDHL (2017) in the reference list.

2.1. **COMPANY BACKGROUND**

![Freight trade flows. Source: DPDHL (2017)](image)

Deutsche Post DHL Group is a German postal service and international forwarding company, with headquarters in Bonn. The group functions under two brands: (1) Deutsche Post, which is Europe’s leading postal service provider and (2) DHL, which is clustered along a range of international express, freight transportation, e-commerce and supply chain management services.

Rewinding the tape, transporting goods has been a basic need since the beginning of time. In ancient times, transport had one main reason only – to stay alive and to secure basic supply. When people started trading goods, the need for transport increased and developed rapidly. The increasing speed of technology in society at the end of the 19th and the beginning of the 20th centuries gave a strong push to the transport and forwarding sector in the industry.

It is now over 200 years since DHL pioneered modern freight forwarding. The entry of Louis Danzas into the logistics business in 1815 signified the start of a history. The expertise and spirit of Danzas and other consolidated companies continues on today in DHL. For over two centuries, the companies have developed in parallel with milestones in technology and logistics.

The transport and forwarding sector supported the industrialization process in the second half of the 20th century, by developing forwarding services that can be seen
as the beginning of the current logistics products and systems in DHL. The globalization of markets, hand in hand with the international division of labor, started in the early 1980s with extremely strong development in the following years. For example, the automotive industry, electronics industry, or other industries where single parts or components are produced in factories around the globe, and the assembly takes place in a single assembly plant somewhere else in the world. Globalization would mean that customers are constantly looking for supply chain efficiency improvements and also to handle and move cargo more economically. DGF as the freight forwarding experts, support these needs.

A basic element, and a success factor, of the freight forwarding industry is the consolidation of shipments from more than one shipper to more than one consignee. DHL does this across trade lanes, and ship mostly via air or ocean globally. 80% of the total volume is moved within the top 10 trade flows, which can be seen in figure 2 above. Although these are the largest, there are thousands of trade lanes in over 150 countries and territories around the world, making DHL truly global.

In conclusion, here are six key facts about the DPDHL group:

- More than 500,000 employees in more than 220 countries/territories (60% outside Germany)
- 61m letters/3.9m parcels each workday in Germany/more than 28,000 sales outlets in Germany
- ~ 753’000 international express shipments per day (2015)
- 2.3m tons of air freight, 2.9m Twenty-foot equivalent unit (TEU) of ocean freight in 2014
- 13.7m square meters of warehouse space in contract logistics (2015)

### 2.1.1. CORPORATE STRUCTURE

Deutsche Post DHL has a corporate structure with two pillars as figure 3 below illustrates.

![Figure 3. DPDHL corporate structure. Source: DPDHL (2017)](image)

Furthermore, the group can be split into different sub-structures, as the group structure in figure 4 below illustrates.
The different sub-structures aim to satisfy different customer needs. The section below provides an overview of each segment offering.

2.1.1.1. **POST – eCOMMERCE – PARCEL (PeP)**

Deutsche Post provides international postal services to European business customers for their letters and light-weight goods. DHL Parcel/ DHL eCommerce provides standard domestic and international parcel pick up, delivery and return solutions for customers and consumers as well as eCommerce logistics and facilitation services.

2.1.1.2. **DHL EXPRESS**

DHL Express provide international door-to-door express pick-up and delivery services for parcels and documents for customers.

2.1.1.3. **DHL SUPPLY CHAIN**

DHL Supply Chain is the world’s largest contract logistics specialist, offering customized logistics solutions based on globally standardized warehousing, transportation and integrated services components.

2.1.1.4. **DHL GLOBAL FORWARDING/FREIGHT**

DHL Freight offers overland transportation for groupage, part- or full-truck load domestic and international shipments, including Road, Rail and Intermodal solutions, across Europe. DHL Global Forwarding operates in global air, ocean & ground freight forwarding.
2.2. DPDHL M&A PROCESS

All major M&A activities at DPDHL are centrally organized and performed by the Corporate M&A team in Bonn, Germany which consists of six full-time dedicated employees. They divide the M&A process into 20 steps, as outlined in figure 6.

As seen, the whole process is divided into the four stages preparation, execution, closing and post-closing. In between these four stages, two decisions on whether to go forward with the transaction or not have to be taken. Before taking the first decision the firm must, among other thing, screen the market for potential targets, set up a deal team and make a preliminary financial valuation of the target chosen. If approved, the next step of the transaction is initiated, where DPDHL takes in external advisors, signs a Letter of Intent, performs various due diligences (IT, HR, operational, financial etc.) and determines the transaction structure. When that is finished, the firm enters the negotiation phase, finalizing the post-merger integration plan and conducting a final financial valuation. If both decisions are affirmative, then the deal goes through and the post-merger integration and management will take place.
2.3. DPDHL GROUP STRATEGY

“Deutsche Post DHL Group’s global platform – along with its broad expertise and its distinctive stakeholder orientation – is unique to the logistics industry. The Group has the potential to become THE driving force in the logistics industry – and the company that defines our industry worldwide. We not only want to be the most global company in our industry, but also the clear leader in quality and customer orientation. In the future, when people think logistics, we want them to think Deutsche Post DHL Group. This is our aspiration and, at the same time, our promise to the customer.” (DPDHL, 2017)

2.3.1. STRATEGY 2020

The group strategy 2020 outlines strategic priorities for the coming years and underscores the goal to become the company that defines the logistic industry. The strategy 2020 is built on three pillars, namely: Focus, Connect and Grow (figure 6).


2.3.2. GROWTH OPPORTUNITIES

One of the Strategy 2020 pillars is growth into new market opportunities. The group has defined 5 key areas for future growth opportunities: (1) Life Sciences & Healthcare, (2) Engineering & Manufacturing, (3) Energy, (4) Technology and (5) Automotive. In order to grow within these niche markets there are continuous need for acquiring capabilities.
3. THEORETICAL FRAMEWORK

The theoretical framework explains the concept of M&As and provides a literature review of the different themes essential to the thesis. It begins with a formal definition of M&A and discusses the status of the research progress in the field, including the success paradox and ends with the drivers and performance factors are reviewed.

3.1. MERGERS AND ACQUISITIONS

Mergers and acquisitions are used as a corporate restructuring tool for a broad range of goals (Gaughan, 2010; Terjesen, 2009). The terms carry a small distinction between them. The term merger is used to describe when two (or more) companies amalgamate into a new entity on “equal” terms. The latter term on the other hand refers to a situation when one company purchases or absorbs another entity and assumes part or total control of it (Terjesen, 2009). However, the terms are often used interchangeably given the fact that even if a merger is supposed to be between “equals”, within the first couple of weeks, one party will arise as the controlling party while the other is being the controlled. (Weber et al., 2013)

There are three different categories in which M&As normally are divided: horizontal, vertical and conglomerate. The horizontal M&A refers to activity within the same market or industry where the companies produce and sell the same products. In other words, activity between competitors, e.g. the merger between Exxon and Mobil in 1999 or Procter and Gamble’s acquisition of Gillette in 2006. A vertical M&A occurs between companies within the same value chain and is a strategy to move closer to the source of supply or the end-customer of a specific product. Examples of this can be found in the automotive industry when companies like General Motor and Ford bought up supplier of parts. Lastly, the conglomerate M&A refers to activity between unrelated firms and industries, something well illustrated by General Electric’s expansion from electric components to unrelated businesses such as financial services and healthcare (GE, 2017). (Gaughan, 2010; DePamphilis, 2012, Weber et al, 2013)

Britannica (2017) offers a fourth type of merger called market-extension and the U.S. Department of Commerce (2017) adds a fifth called product-extension. The former type of extension refers to activity between companies that produce similar goods but operate on different markets, and the latter to companies that produce different goods but operate on the same market. However, these are to some extent subcategories to horizontally integrated M&As. According to Elgers and Clark (1980) who studied merger types and shareholder returns, horizontal and vertical transactions yield higher returns that the conglomerate type.
DePamphilis (2012) classifies M&As as one of various ways to realize a business plan. Alternative ways, including the formation of business alliances, embarking on joint ventures, partnerships, and franchises are other examples of vehicles for realizing the corporate strategy. The method chosen, he argues, depends on a trade-off between, among other things, management’s desire for control and risk averseness.

With respect to the closure of an M&A deal, the acquiring company can choose to either purchase the target firm’s assets or stocks. It can pay for it with either cash, shares from its own company or a mix of the two, with the biggest (multibillion dollar) mergers typically financed with stock (Hitt et al., 2001). DePamphilis (2012) argue that there are different factors that must be taken into consideration for each method of payment as they carry certain advantages and disadvantages respectively. A cash payment, he says, depends on aspects like the acquiring firm’s current level of debt, how much control the acquiring firm wishes to maintain, and the target firm’s preference for cash or acceptance of the acquiring firm’s stock.

3.1.1. Historical Development and Merger Waves

Within the finance field there seems to be a resistance towards reviewing history. Emphasis is rather put on future development and events that have just taken place. By reviewing history, it can be observed that flawed patterns of M&As tend to reoccur. Therefore, by reverting to the past and raising awareness one can draw valuable conclusions and avoid mistakes. In the very beginning of history, M&As were mainly centered in the U.S., it later grew and became a worldwide phenomenon. Throughout history, different merger waves, takeover strategies and bidders have emerged and shaped the M&A landscape. (Gaughan, 2010)

In figure 6 below the value and number of M&A transactions worldwide can be observed from years 1985 to 2017. What stands out is the continuous growth of M&A value as time passes, it can also be observed that M&As appear in waves (figure 7).

![Figure 7. Mergers & Acquisitions Worldwide. Source: IMMA (2017)](image-url)
There are mainly five M&A waves from the past century which shows the evolution of M&A activity and also different corporate strategies (Nouwen, 2011). Table 2 below provides a summary that highlights the different waves and their main characteristics.

Table 2. Summary of completed waves of past century. Source: Nouwen, (2011)

<table>
<thead>
<tr>
<th>Wave # 1</th>
<th>Wave # 2</th>
<th>Wave # 3</th>
<th>Wave # 4</th>
<th>Wave # 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominant means of payment</td>
<td>Cash</td>
<td>Equity</td>
<td>Equity</td>
<td>Cash / Debt</td>
</tr>
<tr>
<td>M&amp;A outcome</td>
<td>Creation of monopolies</td>
<td>Creation of oligopolies</td>
<td>Diversification / conglomerate building</td>
<td>‘Bust-up’ takeovers; LBO</td>
</tr>
<tr>
<td>Predominant nature of M&amp;A</td>
<td>Friendly</td>
<td>Friendly</td>
<td>Friendly</td>
<td>Hostile</td>
</tr>
<tr>
<td>Beginning of wave</td>
<td>Economic expansion; new laws on incorporations; technological innovation</td>
<td>Economic recovery; better enforcement of antitrust laws</td>
<td>Strengthening laws on anticompetitive M&amp;A’s; Economic recovery after WW 2</td>
<td>Deregulation of financial sector; Economic recovery</td>
</tr>
<tr>
<td>End of wave</td>
<td>Stock market crash; First World War</td>
<td>The Great Depression</td>
<td>Market crash due to an oil crisis</td>
<td>Stock market crash</td>
</tr>
</tbody>
</table>

3.1.2. RESEARCH PROGRESS

The research conducted on M&As and related topics has been extensive and ongoing for many decades (Cartwright & Schoenberg, 2006; Halebian et al., 2009). According to Calipha et al. (2010), a fair deal of these empirical studies has aimed to identify variables that can help predict the success of M&As.

In a review of research conducted on M&A performance in 1983-2008, Hitt et al. (2012) produced a list (table 3) of the five most common independent variables researched on M&A.

Table 3. Five most researched independent variables in M&A. Source: Hitt et al. (2012)

<table>
<thead>
<tr>
<th>Themes and in how many percent of the articles they have appeared</th>
</tr>
</thead>
<tbody>
<tr>
<td>The extent that an acquisition increased the diversification of the acquiring firm, or the relatedness of an acquisition</td>
</tr>
<tr>
<td>Firm size or the relative size of the acquired to the acquiring firm</td>
</tr>
<tr>
<td>The acquisition experience of the acquiring firm</td>
</tr>
<tr>
<td>Method of payment for an acquisition</td>
</tr>
<tr>
<td>Firm performance prior to an acquisition</td>
</tr>
</tbody>
</table>
Not surprisingly, they show that these factors also provide to be some of the critical factors behind the success of M&As and will, together with other factors, be covered more in detail in the chapter on performance factors.

Looking at the spread of M&A research among different disciplines, Halebian et al. (2009) compiled 864 articles from the fields of accounting, economics, finance, management and sociology from 1992-2009 focusing on quantitative M&A research. After selectively screening the articles and eliminating those who did not have M&A as main focus, they ended up with 167 studies with a vast majority from the fields of finance and management, see table 3. They conclude that the interest for M&As is significant and that the research could improve our understanding of M&As. However, they call for a more interdisciplinary take on the research in order to consolidate the results and reach a greater understanding for the drivers and success of M&As.

![Figure 8. Spread of M&A research among different disciplines. Source: Halebian et al. (2009)](image)

More recently, Gomes et al. (2013) reviewed more than fifty years of research conducted in the strategic, economic, organizational, social and behavioral fields (figure 8). In accordance with the authors above, they conclude that the results from the existing research are disappointing in terms of explaining why so many M&As underperform. They too, attribute the high failure rate to the fact that the research is fragmented and that there is a lack of understanding of the relationship between the different disciplines. However, they also highlight the importance of linking relationships both within and between different stages of the M&A process, something that they mean other reviews, including Halebian et al., 2009, have missed.
Similarly, Cartwright and Schoenberg (2006) suggested that there is a discrepancy between the knowledge gained from experience and the research progress from the academia. They argue that despite all the academic findings and empirical data available, the rate of failure of M&As continue to be high.

3.1.2.1. THE SUCCESS PARADOX

Researchers have concluded that the interest for M&As persist to be high despite the empirical evidence that they in most cases do not create value for the acquiring company’s shareholders (Datta et al., 1992; Calipha et al., 2010; Weber et al., 2013). Given these findings and the assumption that executives in general have a rational take on governance, the use of M&A as a strategic tool ought to significantly decrease, which it has not. Grounded in this contradiction lies the M&A success paradox (Cording et al. 2002).

As previously discussed in the problem statement, Brouthers et al. (1998) reason that inadequate measurement of M&A performance is a reason for the high failure rates found in empirical studies. They suggest that M&A performance ought to be measured using multiple motives, including non-financial ones. In an attempt to further explain the inconsistency between the activity and performance of M&As, the authors offer three possible reasons. Primarily, they argue that managers may pursue other goals than maximizing shareholder wealth. The consequence being as mentioned, that researchers are using inaccurate measures of performance. Secondly, they opine that managers might be overly optimistic about the role of previous experience and that they can improve the performance in the next deal although the odds are against them. Lastly, they suggest that the empirical research carried out is inaccurate because of how data has been collected, which time periods have been studied and the misuse of statistical analysis.

3.2. DRIVERS, MOTIVES AND OBJECTIVES

At the early stages of the M&A process, stakeholders must confront themselves with one critical question that needs to be answered, namely “why?” The question highlights the drivers, motives or objectives of the M&A transactions and is of great importance to the outcome of the project. Brockhaus (1975) and Seth et al. (2002) underscore that the ability to fully understand the motives behind a merger or acquisition is imperative to effectively appreciate the performance of the transaction.

In the Deloitte M&A trend report (2017), 1’000 senior executives involved in M&A activity from firms with annual revenues of $10 million or greater were surveyed. The top three drivers (figure 9) managers predicted for M&A activity were
expanding product offerings or diversifying services (22%), expanding customer base in existing geographic markets (19%) and acquiring technology (19%).

The results offer a good insight into the minds of practitioners and they do appear in theory as well. However, they do lack the presence of rather dominant drivers discussed by scholars.

3.2.1. TWO FUNDAMENTAL AND HIGH-LEVEL REASONS
What then, is the answer to the question why companies embark on the M&A ship? Borrowing the voice of Ancient Greek philosopher and scientist Aristotle, a main reason is because “the whole is greater than the sum of its parts”. Translated into numbers, this philosophical proverb takes on the form of the common mathematical equation $2 + 2 = 5$, which in essence is an expression for the synergy effect. In other words, allowing for a generalization, one of the primary arguments made is to create value through synergetic effects, be that operational, financial or any other type (Ali-Yrkkö, 2002; Bradley et al., 1988; DePamphilis, 2012; Gaughan, 2010; Jensen & Ruback, 1983; Porter, 1987; Seth et al, 2002; Weber et al. 2013).

Beside the synergy argument, Gaughan (2010) further emphasizes the possibility to use M&As as an agent for faster growth when the organic alternative is difficult to pursue. He makes the case that the growth motive is one of the most fundamental drivers given the constant pressure corporate managers are under to demonstrate continuous growth.

A case from the IT industry referenced in the literature, which aligns with the motives above, is the $19 billion acquisition of Compaq by Hewlett-Packard (HP) in 2001. As shown in table 4, the total revenues of the two companies amounted to $87.4 billion with combined operating earnings totaling $3.9 billion.
Table 4. HP and Compaq merger, financial facts. Source: Fiorina (Sep. 2001)

<table>
<thead>
<tr>
<th>Key financial facts (BUSD), premerger</th>
<th>HP</th>
<th>Compaq</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>47.0</td>
<td>40.4</td>
<td>87.4</td>
</tr>
<tr>
<td>Total assets</td>
<td>32.4</td>
<td>23.9</td>
<td>56.4</td>
</tr>
<tr>
<td>Operating earnings</td>
<td>2.1</td>
<td>1.9</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Former HP CEO Carly Fiorina (Sep. 2001) explained the rationale behind the acquisition at a press conference as:

“This is a decisive move that accelerates our strategy and positions us to win by offering even greater value to our customers and partners. In addition to the clear strategic benefits of combining two highly complementary organizations and product families, we can create substantial shareowner value through significant cost structure improvements and access to new growth opportunities. At a particularly challenging time for the IT industry, this combination vaults us into a leadership role with customers and partners – together we will shape the industry for years to come.”

The acquisition demonstrates the importance of defining and evaluating the motives of the transaction. Thanks to clearly defined goals and well-executed premerger integration planning HP was able to cut costs by nearly $3 billion, exceeding its $2.4 billion target after 18 months. Furthermore, the 150’000 employees combined were cut by 12’000, exceeding the target by 2'000 jobs. (DePhamphilis, 2012)

Breaking up the statement made by Fiorina, clear traces of both strategic and financial motives can be found while the personal drivers have been toned down. For example, she says that they will seek cost structure improvement through combining complementary organizations or product families. It is the equivalent to work for synergy effects that can help cut costs and is driven by both strategic and financial motives. The acquisition is also thought to vault them into a leadership role with customers and partners which indicates a pursuit for market power, another strong strategic motive.

3.2.2. REVIEW OF DRIVERS, MOTIVES AND OBJECTIVES

Before reviewing the drivers, a remainder of the delimitations of the thesis might be in order. The remainder being that the drivers discussed below are firm-level motives of M&A activity and only represent the buyer side of the transaction. Drivers of deals derived from the seller side of an M&A are few but do exist, e.g. the CEO or owner(s) of the selling firm wants to cash out and seeks to make an exit (Zwiling, 2011). Macro-level drivers of M&A activity exist as well and are discussed in for example Cools et al., 2007 and Ali-Yrkkö, 2002. The Deloitte M&A trend report (2017) also cover macro-level drivers of M&A as they conclude that a
bullish stock market and interest rates close to historic lows will fuel the likelihood of future transactions.

Addressing firm-level drivers for M&A activity, no universal distinction in the classification of the drivers exist in the literature. Brouthers et al. (1998) divided merger motives into three categories: economic, strategic and personal. Seth et al. (2000) and Carpenter & Sanders (2007) offered a division of the motives into synergy, managerialism and hubris while Haleblian et al. (2009) made it into four: value creation, managerial self-interest (value destruction), environmental factors and firm characteristics. In Table 5, the different classification and motives, including those made later by Gaughan (2010) and Weber et al. (2013) are presented.

Table 5. M&A drivers from the literature review. Source: Compiled by the authors

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic</strong></td>
<td><strong>Value creation</strong></td>
<td><strong>Managerial self-interest</strong> (value destruction)</td>
<td><strong>Environmental factors</strong></td>
<td><strong>Firm characteristics</strong></td>
</tr>
<tr>
<td>• Marketing economies of scale</td>
<td>• Synergy</td>
<td>• Expansion</td>
<td>• Environmental uncertainty</td>
<td>• Acquisition experience</td>
</tr>
<tr>
<td>• Technical economies of scale</td>
<td>• Managerialism</td>
<td>• Financial motives</td>
<td>• Regulation</td>
<td>• Firm strategy and position</td>
</tr>
<tr>
<td>• Increase profitability</td>
<td>• Hubris</td>
<td>• Synergy</td>
<td>• Imitation</td>
<td></td>
</tr>
<tr>
<td>• Risk spreading / diversification</td>
<td></td>
<td></td>
<td>• Resource dependence</td>
<td></td>
</tr>
<tr>
<td>• Cost reduction</td>
<td></td>
<td></td>
<td>• Network ties</td>
<td></td>
</tr>
<tr>
<td>• Differential valuation of target</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Defense mechanism</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Respond to market failures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Create shareholder value</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Pursuit of market power</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Acquisition of a competitor</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Acquisition of raw materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Creation of barriers to entry</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Personal</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Increase sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Managerial challenge</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Acquisition of inefficient management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enhance managerial prestige</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A general conclusion that can be drawn is that most of the motives reoccur under different names and classifications. Managerial self-interest, managerialism and agency theory are examples of terms that are used interchangeably to describe the same thing. Moreover, different sets of motives divide into sub motives, e.g. Seth et al. (2000) who examined foreign acquisitions of U.S. firms derive the synergy motive from increasing operational efficiency, increasing market power, achieving
financial gains and transferring intangible assets such as know-how. Carpenter and Sanders (2007) also split the synergy motive into different sources (five). Other scholars, e.g. Goold and Campbell (1998) follow the pattern and provide six forms of synergy. The synergy motive will therefore not be addressed as an isolated motive but split up between other motives that lead to synergy.

A common thread found, in not just the sources presented above, when addressing drivers and motives of M&As is that they tend to divide into either value creation or value destruction motives. Most prominent in the category of value creation are the motives to achieve synergy, competitive advantage and growth. On the value destruction side of the spectra, the managerial self-interest and hubris motives are found. In this thesis, the classification of M&A motives resembles that of Brouthers et al (1998), divided into strategic, economic and financial, and personal. However, the sub motives will not be classified in the same way as for example the “increasing sales” motive will be found under economic and financial rather than personal motives.

3.2.3. **STRATEGIC**

The strategic motives for why a corporation undertakes an M&A are rich in number. Casting its shadow in the background on all the deals is the endeavor to achieve competitive advantage and thereafter enjoy the financial gains from the strengthened position (Porter, 1987). The competitive advantages appear in a wide variety of ways, from gaining market power to acquiring capabilities (Porter, 1987). Ultimately, the majority of the strategic motives are triggered by value creation reasons, just like the pure economic and financial motives. In table 6 below, the strategic motives are presented linked with the type of M&A that it triggers.

<table>
<thead>
<tr>
<th>Strategic motives</th>
<th>Type of M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market power</td>
<td>Mainly horizontal integration</td>
</tr>
<tr>
<td>2. Create market-entry barriers</td>
<td>Vertical and horizontal integration</td>
</tr>
<tr>
<td>3. Acquiring capabilities</td>
<td>All types, vertical, horizontal, conglomerate, market-extension and product-extension</td>
</tr>
<tr>
<td>4. Accessing new markets and overcoming market-entry barriers</td>
<td>Vertical or conglomerate</td>
</tr>
<tr>
<td>5. Resource independence</td>
<td>Vertical and horizontal integration</td>
</tr>
<tr>
<td>7. Market for corporate control</td>
<td>Horizontal integration</td>
</tr>
</tbody>
</table>

*Table 6. Strategic motives that drive M&As. Source: Compiled by the authors*
3.2.3.1. MARKET POWER

Gaughan (2010) mentions three sources of market power: product differentiation, barriers to enter and market share. By integrating horizontally, a firm usually acquires or merges with a competitor. If the combination of the two firms result in a greater market share, this may lead to a substantial increase in market power. However, whether market power does indeed increase or not after an M&A depends on the size of the merging firms and the level of competition in the industry, see figure 10. With greater market power follows greater bargaining power toward both suppliers and customers/distributors (Goold and Campbell, 1998). (Gaughan, 2010)

![Figure 10. Illustration of market power. Source: Produced by the authors](image)

In a fragmented market, there are many rivaling companies producing the same services and goods, resulting in a low degree of market power for each individual firm (Gaughan, 2010). On the other hand, when the industry is highly consolidated and the number of competitors is low, high market power can be obtained (Gaughan, 2010). A firm with a monopoly status can in turn earn higher profit by dictating supply, demand and price of the goods it sells.

3.2.3.2. CREATE MARKET-ENTRY BARRIERS

A company that can position itself in a market where the barriers to enter are large has a natural competitive edge which brings benefits such as greater market power (Wernfelt, 1984). Barriers to enter a market are different from industry to industry. Different countries may even have different barriers to enter the same or similar markets due to various reasons, such as cultural, political, social or legal obstacles. Examples of barriers to enter a market are technological expertise, machine capacity, production experience or customer loyalty (Wernfelt, 1984).

Caves and Porter (1977) offer a good strategy to create barriers to enter a market in the form of vertical integration. They reason that a firm that integrates backwards towards the source of supply can secure control over input to the end-product or service and thus create a competitive advantage and a deterrent for new entrants. Similarly, forward integration can lead to entry barriers if the firm can secure control over distribution channels, especially if they are difficult to mimic. Another possibility to create barriers suggested by the same authors is through horizontal integration. By acquiring or merging with a competitor, synergies such as economies of scale can be achieved, which in turn makes it possible for the firm
to lower the per unit production cost. Subsequently the firm can maintain profits at a lower price at a level where new entrants will have more difficult to compete.

3.2.3.3. Acquiring Capabilities and Accessing New Markets

Corporate restructuring involving cross-border, market-extension or product-extension movements will many times make firms confront previously unfamiliar rules of engagement, such as regulatory issues or even cultural barriers that can significantly affect the success of the deal. The use of M&As to expand the business into a new geographic market is a way for the firm to acquire capabilities such as country specific know-how, including expertise on local legal framework and indigenous staff together with distribution networks (Gaughan, 2010). Acquiring these capabilities rather than developing them organically makes it possible for the firm to grow at a faster pace and at the same time mitigate risks. Cutting the time-to-market can be especially crucial when there is a first-mover advantage in a market such as signing government contracts or gaining access to scarce sources of raw material (Wernfelt, 1984).

Moreover, an acquisition makes it possible for the firm to overcome market-entry barriers by transferring important technological capabilities and intangible assets such as patents, copyrights and technological know-how. Instead of developing and innovating through the firm’s proper R&D efforts, it can achieve the same results through an M&A. (Ali-Yrkkö, 2002)

3.2.3.4. Resource Independence

A dominant strategy to achieve resource independence for a firm is through vertical integration (Caves and Porter, 1977). In accordance with the previously mentioned under market-entry barriers, a vertical integration backwards through the supply chain helps the firm to secure supply of raw material and decrease outer dependency. (Ali-Yrkkö, 2002)

Furthermore, according to Gaughan (2010) the dependability of a firm is not only determined by the availability of supply. He reasons that quality maintenance and timely delivery considerations also influence the outer dependency of the firm. Timely access to supply both helps to maintain lower levels of inventory and makes it possible for the firm to produce output on a reliable and continuous basis. Finally, he suggests that the need for customized input such as custom-designed materials or machinery could also drive vertical integration between firms.

3.2.3.5. Globalization

The globalization motive can be observed at firms who serve multinational clients that require their presence in different geographic markets. This is something that maybe proves especially true for transporting and forwarding companies that must
be able to deliver packages between countries. Gaughan (2010) underscores the fact that we live in an increasingly globalized world that pressures firms to truly be global and that the fastest way to achieve it is through international cross-border acquisitions.

### 3.2.3.6. Market for Corporate Control

The theory of market for corporate control suggest that executives compete for the right to govern and manage the firm’s resources (Jensen & Ruback, 1983). Inefficient and low-performing management therefore makes the firm a target for takeovers by others seeking to turn the company around (Agrawal and Walkling, 1994; Jensen & Meckling, 1976). After the takeover, the underperforming management is replaced in favor for one that is more value maximizing (Ali-Yrkkö, 2002). Gaughan (2010) confirms that some takeovers are driven by a belief that the management of the buying firm is better at managing the target firm’s resources. The acquiring firm then believes that it can employ its expertise and skills to successfully exploit the full potential of the target.

Likewise, Höpner and Jackson (2006) argue that outsiders have high incentives to acquire mismanaged firms with low stock price, especially where ownership of shares is spread across many holders. The first step being the acquisition of the voting rights and thereafter the replacement of the management and restructuring of the firm.

### 3.2.4. Economic and Financial

The economic and financial motives are summarized in table 7 below in a similar fashion to the strategic ones.

*Table 7. Economic and financial motives that drive M&As. Source: Compiled by the authors*

<table>
<thead>
<tr>
<th>Economic and financial motives</th>
<th>Type of M&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Economies of scale</td>
<td>All types</td>
</tr>
<tr>
<td>2. Economies of scope</td>
<td>Mainly horizontal, but also vertical</td>
</tr>
<tr>
<td>3. Increase profitability</td>
<td>Horizontal and vertical</td>
</tr>
<tr>
<td>4. Increase sales</td>
<td>All types</td>
</tr>
<tr>
<td>5. Reduce costs</td>
<td>Mainly horizontal but also vertical</td>
</tr>
<tr>
<td>6. Diversification / risk spreading</td>
<td>Mainly conglomerate mergers</td>
</tr>
<tr>
<td>7. Tax benefits</td>
<td>Mainly conglomerate mergers</td>
</tr>
<tr>
<td>8. Lower cost of capital</td>
<td>Mainly conglomerate mergers</td>
</tr>
<tr>
<td>9. Pure financial</td>
<td>All types, especially conglomerate</td>
</tr>
</tbody>
</table>
In their study Brouthers et al. (1998) surveyed managers involved in M&As of publicly traded Dutch firms in 1994 and had them rate the importance of 17 motives on a scale from 1 to 7 with 7 being extremely important. As shown in table 8, all excluding the first out of the top seven ranked motives were economic or financial.

Table 8. Ranking importance of motives. Source: Brouthers et al. (1998)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Motive</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pursue market power</td>
<td>5.242</td>
</tr>
<tr>
<td>2</td>
<td>Increase profitability</td>
<td>5.065</td>
</tr>
<tr>
<td>3</td>
<td>Marketing economies of scale</td>
<td>4.393</td>
</tr>
<tr>
<td>4</td>
<td>Create shareholder value</td>
<td>4.371</td>
</tr>
<tr>
<td>5</td>
<td>Increase sales</td>
<td>4.303</td>
</tr>
<tr>
<td>6</td>
<td>Technical economies of scale</td>
<td>3.100</td>
</tr>
<tr>
<td>7</td>
<td>Cost reduction</td>
<td>2.933</td>
</tr>
<tr>
<td>8</td>
<td>Create entry barriers</td>
<td>2.207</td>
</tr>
<tr>
<td>9</td>
<td>Acquire competitors</td>
<td>2.033</td>
</tr>
<tr>
<td>10</td>
<td>Defense mechanism</td>
<td>2.000</td>
</tr>
<tr>
<td>11</td>
<td>Risk spreading</td>
<td>1.897</td>
</tr>
<tr>
<td>12</td>
<td>Managerial challenge</td>
<td>1.621</td>
</tr>
<tr>
<td>13</td>
<td>Acquire raw materials</td>
<td>1.552</td>
</tr>
<tr>
<td></td>
<td>Replace inefficient management</td>
<td>1.552</td>
</tr>
<tr>
<td>15</td>
<td>Enhance managerial prestige</td>
<td>1.138</td>
</tr>
<tr>
<td></td>
<td>Differential value of target</td>
<td>1.138</td>
</tr>
<tr>
<td>17</td>
<td>Market failure</td>
<td>1.103</td>
</tr>
</tbody>
</table>

The three most important drivers of M&As was according to their findings pursuing market power, increasing profitability and achieving marketing economies of scale. In total and by category, the economic motives scored a 2.889 while the strategic and personal motives landed a score of 2.759 and 2.154 respectively out of 7 in importance.

3.2.4.1. **Economies of Scale & Scope, Increase Profitability & Sales, Reduce Costs**

Economies of scale and scope are sources for synergetic gains from M&As (Weber et al., 2013). Economies of scale is the idea of spreading fixed costs, such as infrastructure, machinery and administrative costs, across a greater number of units produced. It is achieved when the output of a firm can increase with decreasing, or without the proportionate increase in, per unit cost of production. (Clark, 1988; The Economist, 2008)
Economies of scope exist if the total cost for joint production of a certain product mix is less than independent production of each product (Clark, 1988). Examples of when economies of scope are obtained is when a business can share centralized functions (e.g. marketing economies of scope), when one product can be cross-sold alongside another or when output or residuals from one product or business can be used as input for another. Cross-selling of different products using the same processes for marketing and distribution is a good example of a driver in several of the conglomerate mergers that occurred in the 1990s. The Economist (2008)

The different types of M&As offer firms to reap synergetic benefits from economies of scale and scope. For example, Goold and Campbell (1998) reason that, apart from leading to resource independence as previously discussed, a vertical integration between firms can result in better coordination of the flow of products or services from one unit to another. They further emphasize that efficient coordination of the flow can reduce inventory costs, speed up product development, increase capacity utilization and improve market access. All of which ultimately result in increased sales and reduced costs.

3.2.4.2. DIVERSIFICATION, TAX BENEFITS AND LOWER COST OF CAPITAL

M&As that lead to diversification are undertaken for multiple reasons. According to Gaughan (2010), management that diversify their business do so partly because of the desire to enter markets that are more profitable than the existing one, especially if it is a mature and stagnated one. He argues that economic theory implies that only industries with high entry barriers will provide above-average returns in the long run. This specific driver is therefore deemed a poor expansion strategy in the long run as it will be difficult to cherry pick those industries with consistent growth since they also will be the ones with the highest entry barriers. Industries with low barriers are more competitive and with an increasing number of rivals, high market share will be difficult to achieve. At the same time, the returns and profitability will be low because of the competition. (Gaughan, 2010)

The downside of diversification is that empirical evidence exist that highly diversified companies are traded at a substantial discount compared to the median standalone firm in the same industry (Graham et al., 2002). From their study on a sample of 3,659 firms with sales exceeding $20 million during the period 1986-1991, Berger and Ofek (1995) concluded that diversified firms were valued on average 13-15% lower than the combined value of the firms individually. Gaughan (2010) argues that little evidence exist that would support many of the conglomerate acquisitions that are undertaken. He highlights that 60% of all the cross-industry acquisitions between 1970 and 1982 were sold or divested by 1989. He reasons conglomerates often do not have the necessary detailed knowledge and expertise of the different businesses. Managers that run diversified companies
often have little know-how and detailed knowledge of the many specific industries they operate within, Gaughan (2010) concludes.

Nevertheless, Berger and Ofek (1995) highlight an increase in interest tax shields (as result from higher debt capacity) and the ability of multi-segment firms to immediately realize tax savings (by offsetting losses in some segments against profits in others) as two potential benefits of diversification. Lewallen (1971) shared this view and further argued that combining imperfectly correlated earnings streams from different businesses results in greater debt capacity than single-segment businesses. However, according to their estimations, Berger and Ofek (1995) show that the total tax savings sums to a modest 0.1 % of the sales. Furthermore, they conclude that little evidence support that multi-segment firms can save taxes through offsetting of losses.

Moreover, Comment and Jarrell (1995) argue that corporate focus or specialization on a select number of businesses is consistent with maximizing shareholder value. They reason that common benefits of diversification, such as economies of scope are difficult to realize. However, they point out that diversification can be a good defense tactic to avoid hostile takeovers.

Notwithstanding, as seen before, there are examples of successful corporations that have diversified their business through unrelated (conglomerate) M&As (e.g. General Electric, Berkshire Hathaway, Samsung).

3.2.4.3. PURELY FINANCIAL

Purely financial motivated M&As are mostly embarked upon by private equity firms or other firms that do not have as a chief aim create value through synergies. The motive is simple as companies acquire the target with the objective to sell it at a later date to a higher price without integrating it into the buying firm.

3.2.5. PERSONAL

While the two previously mentioned categories of motives that drive M&As are directly intended to create or sustain shareholder value, this third type of motives may not always align with that goal. The personal motives are divided as seen in table 9 below.

<table>
<thead>
<tr>
<th>Personal motives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Managerialism</td>
</tr>
<tr>
<td>2. Hubris</td>
</tr>
</tbody>
</table>
3.2.5.1. MANAGERIALISM

The managerialism or managerial self-interest theory is derived from the principal-agency theory which states that managers’ and shareholders’ interest might collide when ownership and management is separated. The theory states that managers are seeking to maximize their own utility at the expense of the shareholders (Seth et al., 2000). With a mismatch in objectives, the likelihood that the transaction turns out to destroy value is high (Haleblian et al., 2009). For example, Gaughan (2010) suggest that managers that are serving self-serving interests do M&As to increase the size of the firm (“empire-building”) to enjoy even higher compensation and perks. Likewise, Weber et al. (2013) argue that managers engage in M&A activity to promote their own empire-building efforts in hope to lead larger organizations, improve their status and to satisfy their own egos.

According to Agrawal and Walking (1994), research support the claim that industries with higher CEO compensation generally exhibit higher M&A activity. Moreover, Lubatkin (1983) found a relation between executive compensation and the size of the firm, even if the firm performs badly. Haleblian et al. (2009) argue that compensation contracts should be designed in such a fashion that it reduces managerial opportunism and aligns the interests of managers and owners.

3.2.5.2. HUBRIS

The hubris hypothesis state that managers commit mistakes in evaluating the target firms but does indeed follow through with the deal under the presumption that the valuation made is correct (Seth et al., 2000). In other words, as Malmandier and Tate (2008) suggest, managers that suffer from hubris or overconfidence believe they are actually maximizing value (even though they are not) while empire-building managers deliberately disregard shareholders’ interests. They further argue that CEOs classified as overconfident are 65% more likely to make an acquisition. Haleblian et al. (2009) suggest that managerial confidence and ego gratification drive M&A activity. Gaughan (2010) confirms this by stating that a large body of research supports the hubris hypothesis as an explanation for many takeovers.

3.3. PERFORMANCE FACTORS

Below, the performance factors are organized in three main areas: (1) finance and the capital market, (2) strategic management and (3) organizational behavioral. Only the combination of knowledge from these three areas can contribute to bringing overall M&A success (Weber et al, 2013).

3.3.1. INTRODUCTION TO PERFORMANCE FACTORS

As mentioned by Nicholas (2004) it is important to understand failure causes in order to increase the chance of success. Therefore, to ensure in-depth
understanding of performance, M&A failure factors will be investigated as well as the success factors.

Before reviewing, a clarification and definition of “success factors” will be provided. According to Boynton et al (1984, p.17), critical success factors can be defined as:

“Critical success factors are those few things that must go well to ensure success for a manager or an organization and, therefore, they represent those managerial or enterprise areas that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organization’s current operating activities and to its future success.”

Identically, Lim & Mohamed (1999) defines critical success factors as: “the set of circumstances, facts, or influences which contribute to the project outcomes”. Also, similarly to this, Rockart (1978) defines success factors as “the limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization”. This means, in order words, that identifying success factors enables and contributes to improving the project outcome, which is part of the aim of this thesis.

Research point to different managerial and organizational factors that are generally associated with M&A success, for example, relative size of M&A partners, managerial involvement, culture and organizational structural factors (Calipha et al, 2010). Moreover, Epstein (2005), highlights six factors as determinants for M&A success: Strategic vision and fit, deal structure, due diligence, pre-merger planning, post-merger integration and external factors. Furthermore, Gadiesh et al. (2001) produced six "golden rules" for M&A success: (1) setting rationale, (2) letting the why inform the how, (3) fusing at full speed, (4) keeping customers in the forefront, (5) communicating the vision and (6) managing the three phases of integration. Deloitte M&A trend report (2017), summarizes a survey of 1'000 executives, which concludes that the most important factors for achieving successful M&As are: (1) effective integration (22%), (2) economic certainty (19%), (3) accurately valuing a target (19%), (4) proper target identification (17%), (5) sound due diligence process (12%) and (6) stable regulatory and legislative environment (11%).

Moving on to the “failure” side of the spectra, the Oxford dictionary defines failure as: 1. Lack of success, 2. The neglect or omission of expected or required action and 3. The action or state of not functioning (Dictionary, 2014). The primary reason for failures in M&A is connected to the element that it is easy to buy but hard to perform an M&A. In general, it can be said that failures are characterized by the lack of planning, limited synergies, differences in the management / organizational / international culture, negotiation mistakes and difficulties in the implementation
of the post-merger strategy following an incorrect integration approach (Weber et al. (2013). Similarly, three explanations are according to DePamphilis (2012) most common to explain failure: overpayment (mostly due to limited synergy), post-merger integration and a flawed strategy. Also, according to Adams & Neely (2000), the failure of M&A can be characterized by poor strategic concepts, personality problems at the top, cultural differences, poor employee morale, incompatible information systems and likewise. Furthermore, according to Bruner (2005) six factors are highlighted reasons for M&A failure: complicated business and/or deal, minimum flexibility, elevated risk exposure, over optimism, business not at usual and cultural differences.

Deloitte M&A trend report (2017) also offers what they see as the biggest impediment to achieving a successful M&A, which are: (1) insufficient due diligence process (88%), (2) improper target identification (83%), (3) not valuing the target accurately (81%), (4) changing regulatory and legislative environment (81%) and (6) failure to effectively integrate (78%).

3.3.2. FINANCE AND THE CAPITAL MARKET FACTORS

In table 10 below, the finance and capital market factors affecting M&A performance are presented.

Table 10. Finance and capital market performance factors. Source: Compiled by the authors

<table>
<thead>
<tr>
<th>Finance and the capital market success factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Overpayment and premium</td>
</tr>
<tr>
<td>2. Mode of payment</td>
</tr>
</tbody>
</table>

3.3.2.1. OVERPAYMENT AND PREMIUM

According to Kitching (1967), who held interviews with 22 companies and their top executives involved in a total of 69 acquisitions, one key success criteria for M&A performance is the price paid by the acquiring company. Thoroughly analyzing the valuation and pricing of a deal is necessary in order to fulfill the financial objectives of the acquiring company (Rappaport 1979; Terry, 1982). Researchers from the finance and economics area have come to the conclusion by measuring the change in stock rates after an M&A announcement and have concluded that in many cases only shareholders of the acquired company profit. This is linked to the fact that the acquiring company pays a premium that is above the actual value of the target company. Generally, the premium is so high that the "valuation error" never is mitigated by the potential synergy effects (Hitt et al. 2012; Weber et al. 2013).

Likewise, Roll (1986) concluded that if the acquiring company is not able to compensate overpayment with synergy effects, the M&A will fail financially. Also, Haransky (1999) and Gadiesh et al. (2001) noted that one factor for failure is that
paid premiums were too high to justify. Haransky (1999) further argued that the pressure quickly mounts on the shoulders of the management to deliver results when having overpaid for a target company. Generally, the higher the premium, the harder for the acquiring company to create shareholder value. Similarly, DePamphilis (2012) concluded that over-paying increases the obstacles to earn the cost of capital.

According to Díaz et al. (2009), based on the study of 49 M&A from 1995 to 2004, bidders paying more than a maximum of 21 percent could be overpaying for the deal. Another study shows similar results, after having studied 147 M&A between 1995 to 2004, Azofra et al. (2007), showed that when the premium is too high (between 31-37 percent), there is a negative effect on bidders’ financial returns.

Figure 11 below shows the median premium paid on US announced M&A transactions as of June 2014 back to 2002. As can be observed the premium paid has been above 20% throughout all years with highest median 2009 at 44%.

![Figure 11. Median premium paid on US M&A transactions. Source: FactSet Mergerstat (2014)](image)

### 3.3.2.2. Mode of Payment

Acquisitions can be paid for with cash, stock or a mix of the two. Generally, the literature suggests that managers pay for acquisitions with equity if their firm’s stock is overvalued. Since an acquiring firm’s managers will seek to pay for the acquisition in the most profitable way, cash is used as payment if the stock is undervalued. Thus, the common understanding is that the use of cash may be an indication that managers expect a higher performance after the acquisition. (Hitt et al., 2012)
With similar logic, Faulkner et al. (2012) suggest that if the acquiring company pays for the target in cash instead of stock, it is more likely that it will be a value creating deal. The argument supporting this view is that companies that pay using stock often do this because they see their stock as less valuable than the cash payment required. Usually the low value of the stock is linked to poor management and thus a poor acquisition performance is likely to materialize. High performance acquiring firms in prior years is shown to be a positive predictor for value creation deals.

In contrary to this, a meta-analysis of prior research by King et al. (2004), show that acquisition performance was not statistically impacted by the mode of payment. According to Hitt et al. (2012), the mode of payment influence may be contextual, i.e. dependent on several factors such as: the size of premium paid, stock market cycles and M&A cycles etc. Indeed, there seems to be more research needed in regards to the complex relationship between success and the mode of payment.

Even though, as literature is suggesting, the mode of payment using cash might enhance the M&A performance, according to Deloitte M&A trend report (2017), the outlook and trend is that companies will primarily be using debt and equity issuance to finance deals and not cash payment.

### 3.3.3. **STRATEGIC MANAGEMENT FACTORS**

In table 11 below, the strategic management factors affecting M&A performance are presented.

<table>
<thead>
<tr>
<th>Strategic management factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Size</td>
</tr>
<tr>
<td>2. Diversification and relatedness</td>
</tr>
<tr>
<td>3. Due diligence and evaluation of target</td>
</tr>
<tr>
<td>4. Strategic fit</td>
</tr>
<tr>
<td>5. Premerger planning</td>
</tr>
<tr>
<td>6. Post-merger integration and pace</td>
</tr>
<tr>
<td>7. Communication</td>
</tr>
<tr>
<td>8. Previous experience</td>
</tr>
<tr>
<td>9. Clear objectives, goals and scope of project</td>
</tr>
<tr>
<td>10. Project managers and team member’s competence and commitment</td>
</tr>
</tbody>
</table>

### 3.3.3.1. **SIZE**

It has been found that a mismatch between the acquirer and target company may lead to poor acquisition performance. While acquiring a relative big target, the
acquiring company may suffer from "acquisition indigestion" and when acquiring a relative small company, failing to provide the necessary time and attention required (Hubbard, 1999). Although, according to Kitching (1967), companies can overcome the issues of size mismatch by the use of right organizational structure and reporting.

Faulkner et al., 2012, also suggest that the difference in size between acquiring and target company influences value creation. Although, the suggestion is that if the target is much smaller, the risk of affecting value creation negatively is lower. When both companies are similar in size, the risk is much higher that loss of value will happen. The target firm in order words has to be large enough to impact the acquiring firm’s performance. Contrary to this, according to Jennings (1985), acquisitions representing less than 2 percent of the total sales by the combined firm will most likely fail, mainly due to two key reasons: (1) lack of financial capacity by the smaller company to support the combined structure, overheads and administrative requirements and (2) the contribution is too small to get enough senior-level attention. This might suggest that size and M&A success has a complex relationship.

3.3.3.2. DIVERSIFICATION AND RELATEDNESS

Studies have found that acquisitions into related industries outperform acquisitions in unrelated industries (Gregory 1997; Jennings, 1985; Hubbard, 1999; Dash 2004). According to Weber et al. (2013), synergy exists in companies operating in the same or related industries. If synergy exists it is possible to operate the two companies more profitable together than each by their own. This is all true with the exception of highly specific cases.

According to Hubbard (1999), unrelated expansion has been linked with lower financial performance, lower capital productivity and a higher variance in performance. The reasons are various but related to the lack of industry or geographic knowledge and the inability to achieve synergies.

Palich et al. (2000), found that the linkage between diversification and performance is inverted U-shaped (figure 11). This was found after synthesizing more than three decades of research. In other words moderate levels of diversification provides higher performance compering to limited or excess diversification. Similarly, Weber et al. (2013) found this curvilinear relationship shown in figure 12. According to his study, there is an optimal point of revenue growth (G*) coming from unrelated business activities between the companies that in turn gives the maximum Return On Investment Capital (ROIC) profitability.
3.3.3.3. **STRATEGIC FIT**

According to Jemison and Sitkin (1986) strategic fit can be defined as: "*The degree to which the target firm augments or complements the parent's strategy and thus makes identifiable contributions to the financial and nonfinancial goals of the parent*". Strategic fit is an important element in order to benefit from synergies and achieve acquisition success (Weber et al. 2013; Lubatkin, 1983 Hubbard, 1999). Nonetheless, as argued by Jemison and Sitkin (1986), strategic fit can be considered important but not a sufficient stand-alone condition for M&A success.

3.3.3.4. **DUE DILIGENCE AND EVALUATION OF TARGET**

In describing the due diligence process, Hitt et al. (2001) argue that the most effective due diligence process begins in the very first stage of a transaction. They reason that the due diligence process is supposed to facilitate the target selection and search for firms that can add long-term competitive advantage to the acquirer. They also argue that if the wrong target firm is chosen, the rest of the whole due diligence process may be worthless.

Analogously, Perry and Herd (2004) argue that proper due diligence is of great importance to achieve M&A success. Even though companies are performing due diligence, they might not be doing them well and detailed enough. According to Harvey and Lusch (1995), the aim of the due diligence process is to provide decision-makers with information on opportunities and potential threats affecting the M&A.
Even though in-depth level of due diligence is essential for M&A success, there are reasons for conducting less extensive due diligences. These reasons may vary from time restriction, cost constraint to situational factors. Traditionally due diligence has been focused on tangible and internal company assets. Although, when conducting an in-depth due diligence, intangible assets both in the firm’s internal and external environment, should be considered and analyzed (Harvey & Lusch, 1995). Table 12 provides examples of tangible and intangible items both in the internal and external environment of the company.

<table>
<thead>
<tr>
<th>Internal environment</th>
<th>External environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tangible</strong></td>
<td><strong>Intangible</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>Quality of leadership</td>
</tr>
<tr>
<td>Plant equipment</td>
<td>Training of personnel</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Corporate culture</td>
</tr>
<tr>
<td>Patents/trademarks</td>
<td>Quality of information/analysis operating system</td>
</tr>
<tr>
<td>Technology</td>
<td>Loyalty of personnel</td>
</tr>
<tr>
<td>Inventory</td>
<td>Trade secrets</td>
</tr>
<tr>
<td></td>
<td>Data bases</td>
</tr>
<tr>
<td></td>
<td>Personal/professional networks</td>
</tr>
<tr>
<td></td>
<td>Share of market</td>
</tr>
<tr>
<td></td>
<td>Supplier/distributor contracts</td>
</tr>
<tr>
<td></td>
<td>Physical location</td>
</tr>
<tr>
<td></td>
<td>Brand product awareness</td>
</tr>
<tr>
<td></td>
<td>Customer loyalty</td>
</tr>
<tr>
<td></td>
<td>Competitive positioning</td>
</tr>
</tbody>
</table>

According to Mirvis and Markus (1992), it is important to evaluate all stakeholders in order to avoid any misunderstandings. Weber (2013) argue that behavioral and cultural due diligence is important in understanding the future challenges of the combined firms. An examination and evaluation is necessary to find if the firms share similar values to ensure that synergies can materialize. Usually, for a successful acquisition the level of analysis is comprehensive and for an unsuccessful less so and more focused on the financial analysis, not taking into consideration other factors (Jennings, 1985).

3.3.3.5. **PRE-MERGER PLANNING**

Companies ought to have a comprehensive planning foundation when taking key decisions such as M&A transactions. Comprehensively planning an M&A strategy can help avoid a poor match between merger parties and thus maximize the success potential. Without an extensive planning foundation, companies are typically less focused and more opportunistic about their M&A endeavors. Poorly planned M&As may not consider important factors such as a company's strengths
and weaknesses, ability to integrate or manage the new business, changing competitive environment, long-range product or market trends, impact of new technology, labor relations, organizational, and corporate culture problems. All these factors can directly affect future growth and successful integration potential of an M&A. The lack of proper analysis of factors can lead to incompatible corporate marriage or costly surprises. (Jennings, 1985)

Table 13 below shows a comparison between the planning phase of successful/unsuccessful acquisition.

<table>
<thead>
<tr>
<th>Business strategy of Parent company</th>
<th>Successful Acquisition</th>
<th>Unsuccessful Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning</td>
<td>• Strategy well-founded</td>
<td>• Incomplete analysis of alternatives: incompletely defined strategy</td>
</tr>
<tr>
<td></td>
<td>• Acquisition part of integrated business plan: focused objectives for acquisition</td>
<td>• Acquisition a general way to meet financial, growth or asset redistribution objectives</td>
</tr>
</tbody>
</table>

3.3.3.6. **POST-MERGER INTEGRATION AND PACE**

The value of M&As are created when integration is done and a combined firm emerges that exploits synergy potential. Integration planning usually start after the deal has been signed. Although, integration planning and the challenges associated with it has to be taken into consideration before signing the deal. It is suggested that decision makers address integration aspects such as organizational structure, culture differences, employee attitudes, synergy potential, cost-cutting and knowledge transfer early to ensure success. (Weber et al. 2013)

According to Yadav and Bhaskar (2005), the phase of integration is important due to the fact that waiting for longer periods brings uncertainty to the organization. Uncertainty can destabilize and distract the normal organization life and elevate employees’ level of stress. This in turn can result in financial losses if they underperform. It is therefore suggested to sort out confusion as early as possible and integrate the firms in a fast pace. Gates and Very (2003) emphasized the importance of measuring the integration progress. For executives responsible for integration of the two firms it is a key task to have measuring tools available. The measurements used to track the M&A integration can be both financial and non-financial. In addition to have milestones and targets for each measure it is important to define how they will be used to control and monitor the project.
Table 14 below shows a comparison between the planning & execution of successful/unsuccessful acquisition.

<table>
<thead>
<tr>
<th>Integration of Acquisition</th>
<th>Successful Acquisition</th>
<th>Unsuccessful Acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning &amp; Execution</td>
<td>• Comprehensive plan covering all functional areas; defined responsibilities and timing</td>
<td>• Integration plans not well defined beyond financial/accounting functions</td>
</tr>
<tr>
<td></td>
<td>• Management talent available to manage integration process</td>
<td>• Management thin or committed to other projects or problems</td>
</tr>
<tr>
<td></td>
<td>• Carefully controlled and managed process</td>
<td>• Integration responsibilities not clearly defined or controlled</td>
</tr>
<tr>
<td></td>
<td>• Senior executive &quot;owns&quot; project – responsible for guiding new company and filtering</td>
<td></td>
</tr>
<tr>
<td></td>
<td>excessive parent involvement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Reporting relations between key personnel and functions identified and defines</td>
<td></td>
</tr>
</tbody>
</table>

3.3.3.7. **COMMUNICATION**

There is an increasing acknowledgement regarding the importance of communication to the performance of a business. During M&A and times of organizational changes, communication becomes even more important. A large amount of information needs to be communicated in a concise and timely manner. Communication during M&A compared to the normal working environment is more complex and important. It has been found that communication increases the organizational efficiency. Well-planned M&A communication correlates highly with employees' feelings of personal control, commitment, lower uncertainty, increased performance and job satisfaction. Lack of proper communication effect the organization with a plunge in employee trust, feeling of fairness during and management credibility. (Hubbard, 1999)

Equally, Herd and McManus (2012), suggest frequent communication by setting up a complete communications strategy to ensure successful merger integration. On the other hand, Zhu and Rosenfeld (2004) in studying an acquisition of two Chinese internet companies found that information adequacy during M&A is not always positively related to job satisfaction. They found that information should be communicated only when it is carefully designed and delivered purposefully, similarly adding to the complexity of communication proposed by Hubbard (1999). They also found that communication should vary in its openness, depending on the nature of the information, the goals, needs and concerns of the employees.
3.3.3.8. **PREVIOUS EXPERIENCE**

According to Barkema and Schijven (2008), learning from experience might be crucial to enhance performance. They suggest that previous experience will guide acquirers during their later M&A activities and help to avoid mistakes already encountered before. The success of experienced acquirers, such as Cisco Systems, General Electric, Electrolux, Berkshire Hathaway etc. might suggest that there is indeed a defined learning curve from previous M&As (Arrow, 1971). Some research studies have found that prior M&A experience will enhance the success in future M&A activities (Bruton et al. 1994; Barkema & Schijven 2008), while others have found negative or insignificant results (Haleblian and Finkelstein, 1999; Hayward, 2002; Wright et al. 2002; King et al. 2004).

In their study Haleblian and Finkelstein (1999) found that overall correlation between acquisition experience and acquisition performance is negative. They studied 449 acquisitions and preformed quantitative statistical analysis. They argued that having more experience does not mean that managers by default have learned more. A strong argument was that transferring knowledge from one industry to another might imply that old lessons has been transferred, even if they might not apply for the new setting. However, they showed that after the second M&A deal, the firm develops the necessary experience to generalize prior experience only when applicable. Furthermore, the study showed that success is enhanced if the acquiring company is targeting a similar company to prior targets. Experienced acquirers should therefore appropriately be selective about their acquisition options and choose similar targets. Above all, their findings show a U-shaped relationship between M&A experience and performance.

3.3.3.9. **CLEAR OBJECTIVES, GOALS AND SCOPE OF PROJECT**

Herd and McManus (2012), highlight that successful M&A integration is partly driven by having predefined goals and objectives. They argue that it is important to establish clear baselines and setting internal stretch targets while managing market expectations. Likewise, Jennings (1985, p.38) stated about successful acquirers:

“They develop clear goals and specific objectives, such as market participation or technology acquisition. They also develop detailed acquisition criteria for the industry, market, company position, and performance, corporate culture and other considerations. Since the key success/fit factors already have been considered in the planning process, the profitability for success is much greater.”

Moreover, Martin (2016) gives one clear suggestion for any company looking to do engage in M&A activity: focus on what you are going to give the counterpart. Shaping the M&A objective, goal and scope around that will more likely bring success. Companies that focus on what they will get from an acquisition are less
likely to succeed than those focusing on what they can give. A parallel can be drawn to Grant (2014) who argue that people who focus more on giving than on taking do better in the inter-personal area.

3.3.3.10. PROJECT MANAGERS AND TEAM MEMBER’S COMPETENCE AND COMMITMENT

As suggested by Weber et al. (2013), it is important to involve managers from different disciplines and organizational functions, such as R&D, marketing, production, HR etc. in the M&A decision-making process. Doing this will create commitment and effectively ensure managers to evaluate the synergetic potential from their respective function and correctly estimate the costs and obstacles. Weber et al. (2013) argue that not involving manager at every stage might create a lack of motivation and commitment leading to more difficulty to exploit the synergies. Companies that do not involve their managers in the M&A decision process are likely to fail with the activity. Furthermore, as mentioned by Hitt et al. (2012), the project managers and key staff’s knowledge is likely to be important for success. Their expertise is important to ensure a successful integration and lead the M&A in ways that enhance the synergy potential. Managers and key staff have the knowledge about what is needed to operate the firm and in the end, are the staff implementing M&A decisions. Therefore, early commitment to the M&A is important, effectively motivating managers and key staff to bring merger success.

3.3.4. ORGANIZATIONAL BEHAVIORAL FACTORS

In table 15 below, the organizational behavioral factors affecting M&A performance are presented.

<table>
<thead>
<tr>
<th>Organizational behavioral factors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cultural fit</td>
<td></td>
</tr>
<tr>
<td>2. Organizational fit</td>
<td></td>
</tr>
<tr>
<td>3. The human factor</td>
<td></td>
</tr>
<tr>
<td>4. Loss of key people and executive turnover</td>
<td></td>
</tr>
</tbody>
</table>

3.3.4.1. CULTURAL FIT

Schein (1985) define corporate culture as: “the beliefs and values shared by senior managers regarding appropriate business practices”. Weber et al. (2013) define management culture as: “developing system of beliefs (as well as values and assumptions) that is shared by the managers regarding the desired way of management for the organization so that is can deal with the adjustments to its environment”.

Hofstede (1984) addressed in his study the role of culture through four dimensions. The study was based on attitudes and values of employees across multiple nations.
The proposed four dimensions were: individualism/collectivism, uncertainty avoidance, power distance and masculinity/femininity. It is suggested to analyze the role of culture within these four dimension.

Furthermore, it is stated as difficult or close to impossible to successfully implement a merger without taking into consideration potential cultural fit issues (Hubbard, 1999). Likewise, Herd and McManus (2012), suggest to address culture issues early by identifying state dimension and manage employee transition to ensure successful merger integration.

Bijlsma-Frankema (2001) argue that a smoother integration process is obtained if the degree of fit between the corporate cultures and the similarities are high. It is more likely to achieve a successful M&A if attention to cultural issues are raised before committing to a merger (Faulkner et al., 2012). Daly et al. (2004) analyzed 59 M&As between 1989-1996 and compared the values expressed in the letters to shareholders in corporate annual reports. Their study found that similarities in values did in fact have a positive influence on the financial success of the merger. Dackert et al. (2003) highlight that cultural differences may yield stress, negative attitudes and lack of commitment and corporation.

Veiga et al. (2000) found that successful M&As were likely to be a result of a new superior culture being formed, leveraging the "best of both worlds". Haspeslagh and Jemison (1991) suggest that the acquiring organization can choose from four integration alternatives:

1. Preservation: maintaining separate operations and cultures
2. Absorption: assimilate into own operation and culture
3. Symbiosis: gradually integrating operations and cultures
4. Holding: re-inventing the operations and cultures of both companies

Depending on the need for organizational autonomy and the need for strategic independence, companies choose from above alternatives, as shown in figure 13.

![Figure 13. Acquisition Integration Model. Source: Haspeslagh and Jemison (1991)](image-url)
Furthermore, Jennings (1985) highlights that acquisitions that have substantially different corporate cultures are candidates for poor M&A performance. There seems to be consensus amongst scholars that culture and M&A success are correlated. With that said, the extent to which culture actually matters and under which conditions, still remains unclear (Faulkner et al., 2012).

3.3.4.2. ORGANIZATIONAL FIT
According to Hitt et al. (2001), organizational fit occurs when “two organizations or business units have similar management processes, cultures, systems and structures.” In other words, organizational fit means that there is a high degree of compatibility between the companies. They argue that with a high degree of compatibility, a more efficient and effective integration can be achieved.

Identically, Datta (1991) after having reviewed 173 acquisitions in the U.S, found that lack of organizational fit has a negative impact on performance in the manufacturing industry. He highlights that differences in management styles and reward and evaluation systems are important to organizational fit. While a negative relationship was found for differences in management styles, no relationship was found for the reward and evaluation systems on the acquisition performance.

3.3.4.3. THE HUMAN FACTOR
“The rumor mill was hot every single day. I’d go to work and wonder, what next? Why? I had no control over what I heard or the course of events. Then the rumors became reality. First accounting was hit, then marketing, and finally our unit. The whole series of events made me sick. I now have ulcers, migraines, and eating problems. I’m falling apart, and so are my career plans. What a mess!”
(Schweiger et al., 1987, p.128)

As the example quote above suggests, M&A can have a large impact on employees and their lives. This impact is caused given the fact that M&As transform the structure of the organization, processes, systems and the culture. Therefore, the involved parties are impacted to different degrees. Common feelings are stress, disorientation, frustration, confusion and anxiety. In the mid- to long-term, these feelings can have large impact on a personal level, including psychosomatic difficulties, marital discord etc. This will also impact the organization as a whole by lowered productivity, increased dissatisfaction and lowered commitment by employees. M&A related analysis are often focused on strategic, financial and operational decisions, actions and concerns. A raised awareness and concern about human consequences in M&A is needed. Even though there has been a slowly growing focus on the human, organizational, and managerial aspects of M&A there is a lack of systematic study surrounding this research area. (Buono and Bowditch, 2003)
Moreover, according to Mirvis and Markus (1992) it is important to take all stakeholder groups into account when performing an M&A in order to reach higher probability of success. Stakeholders such as customers, suppliers, employees, unions, local communities, stockholders and so on are all important to identify in order to anticipate any resistance as well as potential opportunities or threats to achieve success.

Furthermore, Cartwright and Cooper (2014), emphasize the fact that M&A is indeed stressful for the organization and employees. They further argue that it is important to recognize that occupational stress have large financial implications. In their study, the authors held in-depth interviews with almost 200 managers and employees after a transaction. Their findings suggest that employees have five main concerns in the period immediately following an M&A: loss of identity, lack of information and increased anxiety, survival becomes an obsession, lost talent and family repercussions. They conclude that occupational stress comes from six general areas of work-related areas and M&As are said to impact all of these areas, as shown in the cause-effect figure 14 below. It is also suggested that financial cost for occupational stress during M&As has been little considered and needs to be further researched.

![Figure 14. Sources of occupational stress. Source: Cartwright and Cooper (2014)](image-url)
3.3.4.4. LOSS OF KEY PEOPLE AND EXECUTIVE TURNOVER

“We couldn’t make a move (after the acquisition) without being told that we’d have to adjust to the company’s way of doing things. When I complained to Corporate about the situation, I was told that if I squawked too loud, my position would be in jeopardy. The net result was that company morale was destroyed and my key people began leaving. It wasn’t long before I followed them.” (Hayes, 1981, p.131)

As the quote above suggests, M&As can impact the employees to an extent that they leave the organization. Weber et al. (2013) found that a high percentage of key managers leave the company after the first year of an M&A. This consequently drives the company into unexpected obstacles and usually lower the likelihood of financial success for the M&A.

3.3.5. MEASUREMENT OF PERFORMANCE FACTORS

Researchers have offered four principle methodologies to measure M&A success, these are: event studies, accounting studies, surveys of executives and clinical studies (Bruner, 2002). In this section a review of the literature of the four different approaches to measure M&A success is presented.

Traditionally, many studies of M&A performance have employed financial measures to rate success - i.e. the event study methodology, where changes of share prices are studied. The findings have however, in many cases, been disappointing. A potential reason for the disappoint findings may be that the measure of performance does not adequately measure the true performance achieved. Reason for incorrect measuring can be that one measure of M&A performance might not reflect multiple motives, financial motives was not part of the management agenda and lastly that mergers of different sizes and performance were aggregated. If multiple motives for the M&A is present, the financial measures used for performance analysis, tend to undervalue the achievement and may fail to provide a correct assessment of the success. A proper unit of measure is therefore very important and it is suggested that the use of key success factors (linked to the goals and objectives) should be used as the measurement of performance (Brouthers et al. 1998). Similarly, DePamphilis (2012) states that for example the failure in M&As depend on how the classification of failure is made. Van de Ven (2007, p.185) gives a general note on measurements:

“Fundamentally, measurement represents a problem of conceptualization. Typically, it begins by descending the ladder of abstraction to recast theoretical construct into observable variables, and select procedures and indicators to measures these variables in ways that are reliable (i.e., replicable) and valid (i.e., capture their intended meaning).”
As Zeller and Carmines (1980) highlight: "indicators are never able to fully exhaust nor completely duplicate the meaning of theoretical concepts". Typically, constructs have meanings that are hard to capture in specific indicators which are classically used in M&A performance measurements. As stated by Côté et al. (1999), the performance of M&A should not be taken merely as a set of market- or accounting-based measures, but rather also acknowledge that M&A performance is a set of interpretations made by the acquirer in an attempt to understand mechanisms of the performance. According to Herd and McManus (2012), there exist no single right way to measure the performance of M&A. Moreover, Meglio and Risberg (2011) argue that there is a lack of consensus on how to measure M&A performance. They reason that measurement varies in settings, definitions and in which indicators are used. Also, they found that the most commonly used method was quantitative. Lastly, they suggest to not seek for the best generalized measure that would work in all situations, but instead aim for more tailored measurements.

### 3.3.5.1. EVENT STUDIES

“This technique was a genuine innovation—theoretically well grounded, cheap to execute and able to evade the problem of holding constant other factors that plague ex post studies of mergers’ effects. A better product, available at a lower price, naturally swept the intellectual marketplace.” (Caves, 1989, p.151)

With the quote above, Caves (1989) highlights the positive aspects of the statistical event study methodology. The approach examines the stock prices of acquired and acquiring company surrounding the announcement of the merger. With the available share price, abnormal returns to shareholders are calculated. The abnormal return is calculated as the increase in stock price over what the capital asset pricing model (CAPM) or a broader index (example S&P500) would predict without the M&A (Bruner, 2002; Cording et al. 2002). In other words, the abnormal return is the difference between the actual return against the expected return.

Moreover, like the other approaches, this measure carries with it strengths and weaknesses. Herd and McManus (2012) address the strengths of the approach as an objective quantifiable "street-level" view of the overall success. Similarly, Bruner (2002) state that this approach measures the direct value created for the company's investors. Furthermore, since in theory stock prices are the present value of future expected cash flows, this approach is a so called forward-looking measure (Bruner, 2002). In addition, as mentioned by Cording et al. (2002) data is publicly available which grants empirical studies on large samples. Also, the data is not subject to industry sensitivity, permitting cross-section studies. Meglio and Risberg (2011) point out that event studies in general test their results across different time intervals - i.e. "event windows" - usually within 3, 5, 9 or 11 days event windows.
This approach is based on the underlying assumption of the efficient market hypothesis. In other words, the investors must be able to accurately predict the future cash flow of merged companies. A study by Shleifer and Vishny (1991) showed that the efficiency of the capital markets could be challenged when looking at the behavior of conglomerate merger announcements. Furthermore, according to Bruner (2002), this approach is vulnerable to company-specific confounding events which are non-M&A related. Although, it is suggested that carefulness by the researcher and the law of big numbers does limit the effect of specific events.

3.3.5.2. ACCOUNTING STUDIES

Similar to the event study methodology, the accounting approach is focused on financial performance. Accounting statements and reported financial results are reviewed before and after the M&A for the measurement. The main key performance indicators looked at in these studies ranges from net income, return on equity or assets, earnings per share, leverage and liquidity of the firm (Bruner 2002). According to Meglio and Risberg (2011), accounting measures rely on financial information that can be obtained in the companies’ accounting reports, which are usually expressed as values, ratios or percentages. Furthermore, they divide accounting measures into profit, growth and liquidity and leverage. Profit is usually measured by return on assets, return on sales or net income. Growth is usually measured by total sales and liquidity & leverage by for example cash flow.

Bruner (2002) view the strengths of the approach as being overall credible, since the financial statements have been certified and accounts audited. Moreover, he stresses that it is an indirect measure of economic value creation. According to Meglio and Risberg (2011), there are mainly two reasons for the popularity of market- or accounting-based measures, namely objectivity and accessibility.

Although, similar to the event study, this approach shares the limitation that there might be other factors than those derived from the M&A that are affecting the numbers. Also, accounting measures reflect the past and is thus not forward-looking (Cording et al. 2002). Furthermore, Bruner (2002), points out several weaknesses, such as possibly being non-comparable for different years because of changing reporting practices, ignores value of intangible assets, sensitive to inflations and deflation, possibly inadequate disclosure by companies, differences in accounting policies adds noise and differences in accounting principles from one country to the next make cross-border comparison difficult. Moreover, Meglio and Risberg (2011), argue that accounting studies to measure success are used less frequent since it does not account for change in risk as in the event study. Also, accounting figures can be manipulated by managers.
3.3.5.3. **SURVEYS OF EXECUTIVES**

Compared to the event study and accounting study methodology, this approach is not based on a set of data gathered from a database of figures. Instead, standardized questionnaires are used to simply ask executives and managers whether in their view the M&A created value. Later, generalizations can be drawn from the sample to express the overall view. Usually survey studies are not tests of hypotheses, instead they aim to describe rather than to test. An event study or account study aim to prove its findings with the "t-statistic" measure - i.e. that the result was not due to chance. The higher the t value, the lower the probability of a chance occurrence (Bruner, 2002). Bruner (2002) emphasize the strengths of this approach by reasoning that it makes it possible to benefit from the intimate familiarity with the success which in turn yields insights into value creation that might be overlooked in the other approaches.

Since these surveys aim to describe rather than to test, it is important how questions are presented. Krosnick and Alwin (1987, p.201) reason that:

“... in survey research it is now well know that responses to questions measuring beliefs and attitudes may be significantly altered by apparently trivial changes in the form and wording of questions or in the context in which they are asked.”

In their study, they found support for the order effect, i.e. that the responses to questions vary depending upon the order in which they are presented. Furthermore, Bruner (2002), lists weaknesses such as: gives perspective of managers who may or may not be shareholders, recall of historical data can be hazy and typically surveys have a low rate of participation (2-10%), thus making them vulnerable to criticism of generalizability.

3.3.5.4. **CLINICAL STUDIES**

In analogy to the surveys of executives methodology, this approach aims to describe rather than to test an hypothesis. Typically, there is a study focus on one or a small sample of transactions in great depth. The overall aim of the inductive research is to derive insights from field interviews with executives and knowledgeable observers. Usually, by looking into the details and background of the transaction, researchers are able to provide fruitful insights (Bruner, 2002).

Strengths of this approach is characterized by the objectivity and depth in actual experience. Moreover, the inductive nature is ideal for discovering new patterns and behaviors. On the other hand, there are weaknesses such as: ill-suited to hypothesis and the reports can be idiosyncratic making to abstract larger implications for the broader use (Bruner, 2002).
### COMPARING THE FOUR APPROACHES

In table 16, a summary of the strengths and weaknesses of the four approaches of measuring M&A performance has been made.

*Table 16. Strengths and weaknesses of the four approaches from the literature review*

<table>
<thead>
<tr>
<th></th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Event studies</strong></td>
<td>• Theoretically well grounded</td>
<td>• Underlying assumption of efficient markets</td>
</tr>
<tr>
<td></td>
<td>• Cheap to execute</td>
<td>• Vulnerable to company specific events</td>
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<tr>
<td></td>
<td>• Objective &amp; quantifiable</td>
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<tr>
<td></td>
<td>• Direct value for investors</td>
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<tr>
<td></td>
<td>• Forward-looking</td>
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<tr>
<td></td>
<td>• Data easy to access</td>
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<tr>
<td><strong>Account studies</strong></td>
<td>• Credible data</td>
<td>• Back-looking</td>
</tr>
<tr>
<td></td>
<td>• Objective &amp; quantifiable</td>
<td>• Does not account for risk change</td>
</tr>
<tr>
<td></td>
<td>• Indirect measure of value</td>
<td>• Non-comparable data</td>
</tr>
<tr>
<td></td>
<td>• Data easy to access</td>
<td>• Vulnerable to specific events</td>
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<tr>
<td></td>
<td></td>
<td>• Data easily manipulated</td>
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<tr>
<td></td>
<td></td>
<td>• Ignores value of intangibles</td>
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<tr>
<td></td>
<td></td>
<td>• Sensitive to inflations/deflation</td>
</tr>
<tr>
<td><strong>Surveys of executives</strong></td>
<td>• Benefits from intimate familiarity</td>
<td>• Responses varies by changes of form and wording of question</td>
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<tr>
<td></td>
<td>• Yields insights into value creation</td>
<td>• Affected by interviewee</td>
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<tr>
<td></td>
<td></td>
<td>• Recall of historic data</td>
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<tr>
<td></td>
<td></td>
<td>• Low survey rate participation</td>
</tr>
<tr>
<td><strong>Clinical studies</strong></td>
<td>• Objectivity &amp; depth in experience</td>
<td>• Ill-suited to hypothesis</td>
</tr>
<tr>
<td></td>
<td>• Inductive approach</td>
<td>• Idiosyncratic outcome</td>
</tr>
</tbody>
</table>
4. **Methodology**

This chapter outlines the methodology of the thesis and discusses topics such as research strategy, design and method. It also discusses the topics research quality and source criticism.

### 4.1. Research Strategy

Different research strategies entail different types of research methodology. According to Bryman and Bell (2015), the research strategy can be characterized as quantitative or qualitative. They argue that an apparent difference between them lies in what type of data is collected and how it is collected. However, there are studies conducted with both quantitative and qualitative features (Jacobsen et al., 2002). Jacobsen et al. (2002) reason that the quantitative approach presupposes access to a fair deal of observations or analyzable data and provides the possibility to draw generalizable conclusions from the sample set. The qualitative approach, on the other hand, does not require a large sample size but rather preferences data of descriptive character with which it is possible to draw tailored and in-depth conclusions.

Similarly, Bryman and Bell (2015) highlight that in a quantitative setting, volume and quantification of data is essential whereas the qualitative strategy focuses more on words rather than numbers. The authors reason that an important component in the decision which strategy a researcher chooses to go with is closely linked to how the relationship between theory and research is viewed. Two approaches that help explain this link and successively guide the strategy are the deductive and inductive approaches. In the deductive approach, which is closely linked to the quantitative strategy, the existing theory guides (deduces) the research. In contrast, the inductive approach is linked to the qualitative strategy and the research aims to generate (induce) new theories from the observations and findings, see figure 15 below. (Bryman & Bell, 2015)

<table>
<thead>
<tr>
<th>Quantitative (deductive)</th>
<th>Qualitative (inductive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theory</td>
<td>Observations/findings</td>
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<tr>
<td>Observations/findings</td>
<td>Theory</td>
</tr>
<tr>
<td>Testing theories</td>
<td>Generating theories</td>
</tr>
</tbody>
</table>

*Figure 15. Comparing research strategies. Source: Bryman & Bell (2015)*
Given the characteristics of this thesis, the aim and research questions, we have chosen to conduct a qualitative study with an inductive approach. In practice, this means that the findings from the case study are used as a base for generating new theories in form of recommendation and other conclusions adequate to DPDHL. Emphasizing the part that the end-result be adequate to DPDHL, one of the key takeaways of the qualitative strategy is that data collected can be used to draw customized conclusions.

4.2. RESEARCH DESIGN

After reflecting on the research strategy, it is important to carefully consider the research design of the thesis. The research design is of especial importance as it outlines a framework for how to collect and analyze data (Bryman & Bell, 2015). Bryman and Bell (2015) outline five research designs in their book on research methods, these are: experimental, cross-sectional/social study, longitudinal, comparative and lastly, case study design.

As the title of the thesis highlights, this will be a case study of the drivers and performance factors at DPDHL, thus using the case study research design. Bryman and Bell (2015) describes the most basic case study as a detailed and intensive analysis of a single case, that is, a single organization, a single location, a person or a single event.

Adding the research design to the previously chosen research strategy, the thesis can now be characterized as an explorative qualitative case study with an inductive approach.

4.3. RESEARCH METHOD

The research method is sometimes defined as a technique for collecting data, both empirical and theoretical. The collection of empirical data can be made through different means, such as self-completion questionnaires, (un)structured interviews or participant observations where the researcher listens to and watches e.g. focus groups. A differentiation can be made between research design and research method as the design drives the method/mode of collection of data used. A research method is thus associated with different kinds of research designs. (Bryman & Bell, 2015)

Addressing the collection of data from theory, when researching a new topic, it can sometimes be difficult to know what to look for, where to look for it or how to find it. In her book, Business research methods, Greenier (2013) outlines an eleven step process in three stages on how to conduct effective literature research. The first stage, covers basic methods on how to effectively query search engines and other databases to obtain a basic vocabulary of the topic. In the second stage, step 5-8,
more deliberate and tailored queries to adequate databases are made with the aim to obtain three relevant academic articles in full-text. The articles are compared and the reference lists are studied to find any author or work that appear in more than one place, providing an indication of a reliable source. Lastly, the third stage covers how to find full-text versions of articles by e.g. visiting libraries. Greenier (2013) argues that apart from finding the sought article, going to the library may lead to discovery of similar information which might not be available online.

On the same topic, Bryman and Bell (2015) reason that it is crucial to identify and read key books and articles by the main contributors in the field. They suggest that a good student of business research must know what is previously known in order to not “being accused of naively going over old ground” (p.9). They further argue that creating a link between the research question, findings and discussion to existing literature is an effective way to raise the credibility of the research.

Following the process of effective literature research, Greenier (2013) provides a good rule of thumb for when enough literature has been reviewed as she answers the question: When do we know when we have found enough? She offers following rationale: “Keep reading as long as the articles provide new angles on the topic and stop when the articles reference back to the same ideas and authors” (Greenier, 2013, p.24) – indicating that a fair share of the literature on the topic has been covered.

In this thesis, the theoretical and empirical frameworks are created from information gathered through both primary and secondary sources. The sources being scientific articles and books together with first-hand interviews and other documents provided directly by DPDHL. The interviews are conducted in a semi-structured way with open-ended questions, the advantage being that unpredicted and tailored responses can be obtained (Bryman & Bell, 2015).

4.3.1. INTERVIEWS
To reach the aim of the thesis to explore and evaluate the drivers and performance factors of M&A transactions at DPDHL, it is necessary to gather opinions from various stakeholders on the subject. Given the fact that input from stakeholders will contribute to the overall quality and outcome of this thesis, it is important to choose interviewees wisely. Together with DHL European HQ interviewees were chosen to reflect practitioners view from the general field of M&A together with the perspective of DPDHL. Therefore, interviews with stakeholders at DPDHL and outside the organization will be conducted. Also, interview with stockholders that have organizational experience within DPDHL and the general field of M&A has been targeted to incorporate the contrast between the two. Furthermore, in lights
of the importance of different viewpoints, interviewees where chosen which potentially could have different opinions.

As mentioned before, the interviews are conducted in a semi-structured way with open-ended questions with the advantage being that unpredicted and tailored responses can be obtained (Bryman & Bell, 2015). According to Greener (2008), semi-structured interviews are based on a predefined question guide. This means, that what is asked of respondents are already defined, i.e. the questions. Preparing key questions in advance is important in order to achieve the outcome of the research and appear professional in the interviewing approach. In light of this, and to receive a reflective response, predefined questions will be given to the interviewee in advance. In a semi-structured interview, the interviewer can ask follow up questions in order to get a detailed and correct understanding of the interviewee’s opinions.

Furthermore, the focus of a qualitative interview is the knowledge of the interviewee and not the interviewer and therefore in semi-structured interviews, the interviewee is allowed to freely speak on topics that are of interest to them (Greener, 2008). As mentioned by Patel and Davidson (2003), the degree of freedom given to interviewees to freely interpret the question and reply with their experience is the degree of structuring. The degree of freedom given to the interviewer in contrast is the degree of standardization. With a semi-structured interview, lower degree of standardization is used, i.e. questions are open-ended and therefore answers such as "true" or "false" is not the purpose. According to Lekvall and Wahlbin (2001), a low degree of structuring gives the interviewee an opportunity to elaborate and express their thoughts while a high degree of structuring limits their interpretation freedom.

The purpose of the interviews is to obtain knowledge and viewpoints in order to explore and evaluate drivers and performance factors of M&A. Using a semi-structured interview approach will make it possible to gather a wide spectrum of thoughts and opinions. Interviewees will be able to talk freely about their views on drivers and performance factors, without being interrupted or directed to specific answers. As mentioned by Greener (2008), the interviewer’s role is to manage the process and the interviewee should not be subject to constraints. A professional interviewer is said to be interested in the interviewee’s perspective and therefore is flexible to adjust questions and allow for new directions suggested by the interviewee. The interview period should furthermore not be too long but rather realistic. According to Saunders et al. (2007), interview behavior should include: (1) Opening the interview, (2) Using appropriate language, (3) Questioning, (4) Listening, (5) Testing and summarizing understanding, (6) Recognizing and dealing with participants and (7) Recording data.
Lastly, according to Lekvall and Wahlbin (2001) there are mainly three ways to record interview data:

- Hand writing the answers simultaneously while holding the interview
- Recording the interview with speech-recognition software and transcribing afterwards
- Taking short notes and elaborating afterwards

According to Bryman and Bell (2015), there are both positive and negative aspects with the different methods. Although, if possible, it is suggested to record the interview. In this study the interviews will be recorded and later transcribed in order to capture a correct view of the outcome of the interview. Transcription will be processed within a day after the interview, as suggested by Greener (2008), this is important in order to remember what the interviewee was expressing, even if the recording was not good. Interviews will be held either in English or in Swedish depending on what language the interviewee feels more comfortable expressing his or her thoughts in. The interviewees will afterwards be sent a draft of the excerpts from their interviews that will be used in the thesis.

4.4. Research quality

When conducting research, it is important to take into account how the quality of the research can be guaranteed and maintained at all levels. A common way of assessing research quality in qualitative studies, which has been adopted from quantitative research, is to measure the validity and reliability. The validity being what is measured while the reliability addresses the issue of how it has been measured. However, there are different views on how to best adopt these concepts for the qualitative research, and one way to do it is to use the same definitions of the terms without changing the meaning. (Bryman and Bell, 2015)

On the same issue, LeCompte and Goetz (1982) divide validity and reliability into an internal and external part. Guba and Lincoln (1994) offer an alternative categorization with clear parallels. They reason that research quality can be assessed by measuring the trustworthiness and authenticity, where the former is split into following:

- Credibility (internal validity)
- Transferability (external validity)
- Dependability (reliability)
- Conformability (objectivity)

We have chosen to adopt the four above criterions to assess the quality of our thesis, but with the terminology used by LeCompte and Goetz on the three first points.
4.4.1. **Validity**

“Validity is the extent to which a measure accurately reflects the concept that it is intended to measure” (Pellissier, 2008 p12). According to Bryman and Bell (2015), validity is one of the most important criterions for assessing research quality and is to a large extent concerned with the integrity of the conclusions.

Internal validity deals with the fact that research findings should match reality, in other words, that an observed relationship is causal. External validity refers to the extent to which the findings can be suited to other environments, in other words, if the findings can be generalized. (LeCompte and Goetz, 1982; Pellissier, 2008)

In essence, we have designed and structured our research deliberately in a way to achieve high internal validity. We come to an understanding that internal validity is important for our research since our interests and aim is partly to find cause and effect relationships between performance factors and success of M&A transactions at DPDHL. The aim of this thesis is not to generalize findings but to tailor conclusions to the DPDHL group. Thus we did not proactively seek to achieve a high external validity.

Our firm belief is that this thesis has a high degree of internal validity. The reasoning being that we shaped our research and interview questions to actually “measure what we wanted to measure”. Firstly, we organized our interview guide with the aim to achieve high validity by asking questions aligned with the purpose of this thesis. Secondly, all interviewees were given the opportunity to review their answers to confirm their standpoints and avoid confusion. By doing this we mitigated the risk of the material being interpreted incorrectly and therefore also improved the objectivity. Thirdly, we carefully chose interviewees to represent a broad view of the topic. This further allows us to make comparisons and draw causal relationships.

4.4.2. **Reliability**

External reliability in a study is an important part of assessing the trustworthiness and can be seen as the replicability of the study (LeCompte and Goetz, 1982). In essence, you try to assess if the same results be obtained if the study is replicated. LeCompte and Goetz (1982) argue that it is difficult to achieve
a high degree of reliability in qualitative research as the data collection often is done in such a way that hinder replicability. For instance, in most qualitative studies, data is collected through interviews and an interview is a social setting where the circumstances and conditions undoubtable will vary with time, interviewer etc.

Mälardalens Högskola (2012) couples reliability with validity by offering an example of how obesity in humans can be measured. Imagine that someone researching obesity choses to measure the foot size of the people in the sample space. Albeit, the measures are done very thoroughly and precise, it will probably not yield good results since the validity is rather low as the wrong thing is measured. If the researcher on the other hand would have chosen to measure the length and weight of each individual, then this would be more relevant and result in a higher validity. Depending on how the data is collected, the reliability varies. If, for example the researcher makes rough estimates of the length and weight by quick visual observations, then the reliability would be low. Mälardalens Högskola (2012) conclude the reasoning by giving following rule of thumb:

- High reliability does not guarantee high validity
- High validity requires high reliability

Discussing internal reliability, LeCompete and Goetz (1982) links it to inter-observer consistency. They reason that internal reliability is achieved if there is a high degree of congruency in the observations made by different members of the research team.

In our case, we argue that the degree of both the external and internal reliability of the thesis is satisfying. We have been systematic in the theoretic review and used the same interview questions when collecting empirical data. It is difficult to obtain the same results from the interviews as we have, but it is possible to arrive at the same conclusions if a future researcher replicates the study. Furthermore, we argue that the inter-observer consistency has been high as our work environment has facilitated direct and open communication. Any questions that might have arisen regarding theory or interview answers have been discussed in order to avoid possible ambiguities.

4.4.3. CONFORMABILITY (OBJECTIVITY)

Having a high degree of conformability means that researchers have not allowed personal values affect the conduct of research or the findings. It is important to aim for objectivity even though achieving complete objectivity is near to impossible in business research. (Bryman and Bell, 2015)
We have acted to establish confirmability in the thesis by integrating mechanisms to minimize the exposure to this risk. We transcribed all interview material in order to correctly capture the interviewees' opinions, regardless of our own views. Moreover, we followed a structured interview guide to avoid affecting answers by our opinions. In essence, we let our interviewees speak freely from a set of pre-defined questions, holding the interrupting to a minimum, in order to not affect their answers.

4.4.4. **SOURCE CRITICISM**

When researching the literature, it is important to approach any paper with an objective and critical mindset. Critical thinking throughout the literature review helps to achieve greater thesis credibility with a higher level of validity and reliability. However, it is both a difficult and time-consuming task to industriously maintain the critical mindset when reading paper after paper. It is easy to become comfortable and skip the cross-checking and follow up research that sometimes is required to confirm a certain assumption or statement made. In order to systematically approach the literature with the aim of raising the credibility of the thesis, seven questions, summarized from Bourner (2013), were asked before reading an article or paper:

1. What are the explicit and implicit assumptions that are being made? Can they be challenged?
2. How logical is the argumentation?
3. How reliable is the evidence that support the assertions?
4. Are there any explicit or implicit interests that are being supported by the assertions?
5. What are the implications of the conclusions?
6. In what context was the paper written?
7. Does the use of vocabulary and language bear any deliberate connotations or sway in a certain direction?

By repeating the questions when encountering a new source of information, a structural approach could be obtained. The result being a lens of source criticism through which the literature could be reviewed, ultimately increasing the research quality.

4.4.5. **METHOD CRITICISM**

The method selected in this thesis has been done on basis of which approach that would fit the aim and research questions and how to address them. In the end, the aim was achieved by using an explorative and qualitative case study with an inductive approach. According to Bryman and Bell (2015) there are four common critiques when using a qualitative approach:
1. Too subjective
2. Difficult to replicate
3. Problems of generalization
4. Lack of transparency

By stating that qualitative research are too subjective critical audience often mean that findings rely too much on the researchers unsystematic views about what is significant (Bryman and Bell, 2015). Also, according to Bryman and Bell (2015), a common critique within this domain is the personal relationships the researcher strikes with the studied people. Although we did have open-ended questions the questions were asked in a systematic and pre-defined way that would minimize the risk of our own views. All interviewees received the same set of questions and were unaware about answers obtained from other interviews.

Moreover, another argue made is that qualitative approaches are difficult to replicate. According to Bryman and Bell (2015), since there are usually no standard procedures, a true replication is nearly impossible. Since the investigators are the source of data collection, their preferences of what is to be regarded as significant is affecting the study. We tend to agree with this criticism. However, we proactively integrated mechanisms in our data collection to minimize the exposure to this risk. Firstly, we decided to transcribe all interview material in order to correctly capture the interviewee’s opinions, regardless of our own views. Secondly, we had a structure to the interview guide to eliminate affecting answers by our opinions.

With regard to the problems of generalization mentioned in the validity chapter, the aim of this thesis has not been to generalize findings but to tailor conclusions to the DPDHL group. Thus we did not proactively seek to widen the scope of the findings. Lastly, qualitative research is from time to time criticized by their lack of transparency, i.e. how interviewees were selected. It was always our aim to be fully transparent and therefore we describe in detail how we go about selecting interviewees.

A part of the methodology and data collection that could have increased the overall quality and credibility of the thesis is the number of interview objects. In the thesis, we had in total four interviewees, two from inside DPDHL and two offering an outside perspective. Adding more interviewees in general provides a greater foundation for analysis and conclusion. Moreover, the more sources you have that say the same thing, the easier it is draw more certain conclusions that supports a theory or idea. We therefore acknowledge the possible benefits of more interviews, but argue that the sample space and the length of the interviews (on average 2.5h) offered relatively good and exhaustive findings. One of the reasons why we did not stress adding more respondents was the general intuition that the additional time
required in relation to the added utility did not sum up. Furthermore, we quickly noticed after the first two interviews that many of the points discussed and emphasized were repeated by the respondents, with sufficient depth to help us address and answer our research questions in a satisfying way.
5. **EMPirical Compilation and Analysis**

This chapter presents and analyzes the empirical findings, draws comparisons between theory and the responses obtained in the interviews. N.B. the responses from the interviews (5.2 and 5.3) are presented jointed with the analysis and are directly compared to the theoretical framework. The chapter shall therefore not be viewed as a stand-alone, objective compilation of the findings as they are mixed with our personal views. Nevertheless, we have tried to make it clear for the reader to distinguish what is said by the interviewees from any subjective reasoning made by us.

5.1. **Overview**

In order to get in-depth knowledge of the interviewees’ opinions, each interview has a dedicated section with detailed content of interviewees’ answers to the following questions:

- What in your view are the key drivers/motives for M&A at DPDHL?
- What in your view are the key M&A success factors at DPDHL?
- What in your view are the key M&A failure factors at DPDHL?

For interviews with persons outside of DPDHL, the questions above were generalized to M&A in general by omitting the “at DPDHL” part. The interviewees then got to rank their own answers by most important factor/motive to least and also motivate their rankings. Furthermore, after providing answers, they were asked to compare their answers to a list of factors/motives found in the literature and motivate the difference.

In table 16 below the interviewees, their respective company, roles and experience in M&A are presented.

<table>
<thead>
<tr>
<th>Name</th>
<th>Company</th>
<th>Position</th>
<th>Experience in M&amp;A</th>
<th>Interview type and date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Felix Maurer</td>
<td>DPDHL</td>
<td>Former Senior Vice President of Corporate M&amp;A</td>
<td>26 years</td>
<td>In person interview, April 19</td>
</tr>
<tr>
<td>Katharina S. Wolf</td>
<td>DPDHL</td>
<td>Manager Corporate M&amp;A</td>
<td>5 years</td>
<td>Phone interview, April 27</td>
</tr>
<tr>
<td>Jürg Kurmann</td>
<td>Jürg Kurmann Merger &amp; Acquisitions</td>
<td>Managing Partner</td>
<td>30 years</td>
<td>In person interview, April 09</td>
</tr>
<tr>
<td>Hugo Preutz</td>
<td>Nordea</td>
<td>Director Group M&amp;A</td>
<td>6 years</td>
<td>In person interview, May 12</td>
</tr>
</tbody>
</table>
5.2. Mergers and acquisitions at DPDHL

5.2.1. Felix Maurer

With more than one decade of experience in M&As at DPDHL from his time with the M&A team at the DGFF’s global HQ, Mr. Maurer has acquired invaluable in-depth knowledge of the firm’s approach to M&As. He has worked in different capacities during this time and before closing this chapter of his carrier, he served as Vice President of M&A. He is currently working as Regional Compliance Officer for Europe and Middle East & Africa.

5.2.1.1. Drivers, motives and objectives

Out of the 18 drivers, motives and objectives found in theory that trigger M&A activity, Maurer has seen 12 of them present to varying extent in the transactions he has been part of at DPDHL. Even though Maurer himself does not mention economies of scope, tax benefits, lower cost of capital, pure financial motives, creating market-entry barriers and managerialism he does indeed agree that these could very much be present in other industries and companies when asked about it. On the motive to create barriers to enter the market, Maurer reasons that the highly fragmented transporting and forwarding industry is by nature easy to operate within and therefore the barriers are few. In our view, it is a valid point as the transporting and forwarding industry has its special characteristics in this regard. It would prove a difficult task to keep new entrants out unless a disruption of the market occurs and new resources and competence, i.e. machinery/technology/digitalization changes the fundamentals of the industry.

The first driver mentioned by Maurer, and slightly underestimated in the theory, was globalization or following the customers into new geographic markets:

“.. because if a customer goes into a new market, we want to be there as well, we need to be there. If our customer has a construction site in Nigeria, Syria or wherever in the world, they want us to be there as their logistics partner.”

He emphasizes the importance of being able to keep the promise to the customer to be able to ship wherever they want. On occasion, they work together with local partners but prefer not to because it is a draw-back on the offering to their customers. He argues that the chain is only as strong as the weakest link and that acquiring a local partner is triggered by their desire to ensure the quality of their service in every step of the shipment.

With his initial remarks, Maurer couples the globalization motive with the motives to achieve growth, entering new markets and acquiring capabilities. Essentially, growing by entering new markets in cross-border expansions is closely linked to acquiring capabilities. As Ali-Yrkkö (2002) argues, acquisitions make it
possible to overcome market-entry barriers by transferring important technological know-how/capabilities and intangible assets (i.e. patents, copyrights, networks etc.). Maurer agrees with Ali-Yrkkö, asserting that in order to serve multinational customers, DPDHL is in need of regional and local capabilities in the form of local know-how, legal expertise, people and intangibles. The analogies to Gaughan (2010) are also strong as he argue that M&As are an alternative to expand into new geographic markets and acquire capabilities such as country specific know-how and distribution networks. Acquiring these capabilities instead of developing them internally and organically catapults the firm to grow and seize market shares more quickly at a lower risk.

Moving on, Maurer introduces a somewhat unexpected motive, namely total ownership mentality. The mentality has driven DPDHL to acquire various joint venture partners in different countries because of the urge to excess full control over every part of the business. Indeed, it is a view we share with Maurer as excessing full control of joint venture companies in order to steer clear of time- and energy consuming decisions over governance is a clear benefit. The benefits are several, with the most prominent being that the company can move faster and focus on the important tasks at hand.

From time to time, DPDHL has acquired firms before competitors gaining or increasing their foothold in a market, Maurer argues. The strategy is a clear driver of M&A activity and has in theory been mentioned in connection with takeover defense measures (Brouthers et al., 1998). However, Maurer finds the thought that DPDHL would acquire competitors in order to avoid being acquired themselves as slightly amusing, reasoning that “we are probably overall too big to be acquired”.

Followed by the motive to proactively acquire potential target firms, Maurer mentions horizontal M&As and taking over competitors to acquire capabilities, in particular experienced people, as a motive. We see this as a clear objective to gain competitive advantage at a faster pace than what organic growth can provide. Linked to the horizontal M&As are the synergetic potentials for economies of scale, something that Maurer could not stress enough. Specifically, the matter of achieving a critical mass is of great importance when transporting goods from point A to B, he argues. According to Maurer the rationale is fundamental. If you have a truck, ship or plane, you want to fill the space up before transport, effectively enjoying reduced costs in form of a lower per unit transportation cost, just as Clark (1988) emphasizes.

In the same context, Maurer draws parallels between achieving economies of scale and increasing the market power of the firm as a driving force behind M&As. With more sizable business, you can better negotiate good rates against ocean
carriers and air freight companies etc., he argues. However, when assessing the importance of this factor as a trigger of M&As, he ranks it somewhere in the middle, behind the above mentioned economies of scale and other motives like acquiring competitors. This is something that is in bright contrast to what Brouthers et al. (1998) found in their study of publicly traded Dutch companies where achieving market power was ranked as the most important driver. Our belief is that it depends on their definition of market power and how much they include in it. For instance, market power can be divided into bargaining power over suppliers and distributors. Both side of the spectrum allow the firm to increase margins and secure long-term supply/distribution. However, if you are a transporting company like DPDHL, you will mainly enjoy the bargaining power over suppliers and not distributors/customers because of the dynamics of the industry, being a fragmented market. It is therefore understandable that Maurer ranks this driver in the lower segments.

Ranking it as the foremost reason for why DPDHL engage in M&A activity is according to Maurer achieving a high degree of diversification or spreading risk. He argues that having a balanced business on the basis of geography, transportation mode and industries served is crucial for the long-term survival. When discussing diversification, it is not in the sense of achieving economies of scope or avoiding hostile takeovers (defense tactic), as Comment and Jarrell (1995) highlight as benefits of diversifying the business. Contrary to this, Maurer has a more specific take on diversification that is focused on mitigating risk, e.g. that the total revenues of the company are evenly distributed between their four geographic markets: the Americas, Europe, Middle East/Africa and Asia/Pacific. Likewise, they aim to achieve a good mix between how much revenues that stem from respective division: air freight, ocean freight, rail, trucking etc. Lastly, he emphasized the importance of being well-diversified with respect to industries served, stating that “..normally not all the industries suffer from an economic downturn at the same time, therefore it is important to balance the industries you are relying on”.

Referring to it as “power”, Maurer moves into the personal motives as he describes the CEO hubris hypothesis. He reasons that it is possible that sometimes the CEOs push M&A deals because they are driven by overconfidence and ego caused by peer pressure, media coverage and prestige. This is in line with what Haleblian et al. (2009) and Gaughan (2010) found, as they too argue that managerial overconfidence and ego gratification drive M&A activity. However, on the second personal motive, managerialism or managerial self-interest, Maurer was modest in affirming it as a cause for M&As. He rather held it up as a “pushing over the counter” effect and that deals already planned and undertaken could perhaps
be pushed through by managers serving self-interests. Nevertheless, he concludes that it is not a sufficient, stand-alone motive to trigger a deal.

5.2.1.2. PERFORMANCE FACTORS

In moving on to the performance factors, Maurer shares his views by stating that:

"It all starts with a proper due diligence, or even before, with screening the market and identifying the right target. Normally, in each and every market you have several or many potential candidates or companies, so first of all you have to identify which is the best fit with your own organization and then you have to perform a proper due diligence where you really deep-dive into different areas and thoroughly check if it fits."

Once the deal has been done the integration phase starts. Maurer views the post-closing integration just as important as the pre-merger planning. The aim should be to realize the identified synergies.

Another important factor to achieve success in M&A is the retention of key people in the target company, Maurer emphasizes. He explains that retaining managers of the target firm is to be regarded as a good signal to the staff. It is always good if the boss is still there after an acquisition. If executives are the first ones to leave the company then motivation within the staffing may disappear. This is especially true for smaller companies where normally the CEO is also the owner of the company. Sharing his views, Maurer reasons that executives should be motivated to continue their work for a transition period, stating that:

“With smaller acquisitions, we normally have someone from the existing organization joining the local team to ensure transition and to ensure that when the former CEO or managing director leaves we already have someone placed in the organization. When the size of the deals were bigger, we have also considered retention programs for key people. This is important for the integration and success of the M&A.”

Furthermore, Maurer believes that acquisitions of companies which have less overlap with the existing business are more likely to be successful than those with much overlap. These are usually companies in markets where you do are not present with the current business. Maurer argues that the reason is intuitive, if there are overlaps then more attention will be required from management when integrating the firms. This is in contrast to empirical studies which more often than not have found that acquisitions into related industries outperform acquisitions than unrelated ones. It is explained using synergy, since related companies have more overlaps, synergies may be realized by achieving economies of scale and reducing costs. However, the findings are not unequivocal studies also show that there is an inverse U-shaped relationship between relatedness and revenue growth.
Moreover, a size mismatch between the companies may lead to poor acquisition performance. Maurer states that “normally, smaller acquisitions also get less attention, less care and this leads to failure. The management will not have it on their radar and believe that it will work by itself, then there is a problem”. Although, Maurer argues that if a smaller acquisition fails then the impact on the larger acquirer is usually not that significant. This is in line with arguments forwarded by Hubbard (1999) who reasons that the miscarriage comes from failing to provide the necessary time and attention required when acquiring a relatively small company.

In addition, on the subject of overpayment Maurer argues that it is difficult to really know which revenue streams that stem from the acquired company. However, Maurer agrees with Haransky (1999) that pressure more quickly mounts and is put on the management team to realize synergies if the premium paid was high:

“Knowing if overpayment decreases the level of success represents a complex problem. You need to be able to really track the results going forward, which is difficult because it is normally integrated and mixed with integrated business. Therefore you cannot exactly identify what part is now coming out of the target of the additional acquired company anymore. But I agree with your view that the pressure is much higher if you have paid a premium for the company and you want to see the results. You want to see more synergies.”

The higher premium paid, the more synergies need to be realized and pressure is put on management to deliver. This might decrease the success of the merger if the synergy potentials are overly optimistic. However, Maurer states that they have to be largely overoptimistic and it is not about a couple of percentage point that will make or break a deal. This is somewhat aligned with the views from literature where it is stated that generally, the higher the premium, the harder for the acquiring company to create shareholder value. DePamphilis (2012) concluded that over-paying causes obstacles to earn the cost of capital.

Furthermore, Maurer argues that the success rate increases if there are experienced leaders managing the integration: “If you have people that have integrated several companies in the past, they are more experienced and they are more straightforward and can focus on the critical tasks of the integration activities”. Theory is split over whether experienced leaders does increase the success rate or not. While some studies propose that experience enhances the success, others find the opposite. Some studies show a complex curve-linear relationship between strategic learning and actual performance (källa). Moreover,
Maurer thinks that the **due diligence** should be performed by your own people, with little outside help, thus experience is important:

"**Do the due diligence with your own people as much as possible because they know the business that we are in, don’t rely on external advisors, except when you don’t have the knowledge internally. When it comes to operational due diligence, HR due diligence, IT due diligence etc. you should have your own experienced people looking into the target company.**"

In addition, Maurer stresses the importance of **communication** during the integration period. Communication should be clear and quick even if there are negative news. This create confidence with the staff and in return strengthens the organization with committed employees. Also, **cultural fit** is important. If cultural fit exists then it is easier to integrate the firm and the M&A becomes more successful. Smaller companies in a developing markets amalgamated into a global organization could experience a cultural shock. This might lead to **key people** leaving the company. According to Maurer, there are many ways to create incentives for key people to stay in the company after a merger. One example is to link the price of acquisition to future earnings. In this case the price of the company will rise if the earnings are pushed up, which gives the executives incentives to stay and work hard.
5.2.2. **Katharina S. Wolf**

Ms. Wolf has a Master's degree in International Business with specialization in finance from the Maastricht University in Amsterdam. At the point of the interview, Wolf has been member of the DPDHL Corporate M&A team for one year. Her previous experience before joining DPDHL is four years at an M&A boutique, mainly focusing on the sell side of midsize transaction. In light of this, her experience from both the buy and sell side of transactions has made it possible for Ms. Wolf to provide a complete view of the drivers and performance factors of M&As.

5.2.2.1. **Drivers, Motives and Objectives**

According to Wolf one of the main drivers for M&A activity at DPDHL is strategic growth. Growing to a market-leading position has always been highly prioritized by management. Until recently DPDHL grew heavily by acquiring business to ensure a balanced exposure to different geographic markets. As a forwarding business by nature, it has always been an aspiration to be wherever the customers are. DPDHL likes to ensure standardized customer experience throughout the transportation network and thus have set the goal to be present in all major geographic areas. Wolf argues that for DPDHL, it has always been a tradeoff between the consolidated efforts it takes to set up a similar entity from scratch compared to buying an existing, local company.

Recently the strategic growth aspiration focus has shifted as top management announced an organic growth focus within the strategy 2020 framework. Now, according to Wolf the M&A team is conducting roughly 10 transactions yearly, which historically is a small figure. With the change of focus Wolf experiences a shift of drivers for the transactions:

> “Competition is always up and running. It is not only about being present wherever our customers are but it is also about being future oriented and trying to enter new industries and opportunities which might matter in some years. We want to be innovative and think about the future of logistics. For example last mile delivery, drones delivery and different robotics solutions for warehousing.”

Being future oriented also means entering niche markets, future markets and products which are hard to organically grow into. Therefore, there is a drive to acquire new capabilities and expertise.

Furthermore, Wolf believes that the CEO hubris aspects are not that visible in DPHDL. The M&A corporate division is set-up to have a systematic and objective approach to M&A activity, therefore they can effectively interrupt ongoing acquisitions that are questionable. Corporate responsibilities are to assess and prioritize the M&A initiatives based on the DPDHL criteria and strategy. In
particular, the division should work for a transparent environment and to mitigate possible risks associated with the transaction. Since the CEO has decision power, even questionable acquisitions has been pushed through, without the consent of the corporate M&A department. One example of such an acquisition was the acquired company BeamTransport (made up name due to confidentiality) which was bought even though the M&A team advised against the project. In this specific case the merger failed and the acquired company had to be liquidated.

On the question if Wolf has experienced that DPDHL acquire companies or venture partners because they have a *German mentality* that triggers an M&A to achieve full ownership, she answers that this has not been present in her experience.

5.2.2.2. PERFORMANCE FACTORS

Overpaying for a target company may potentially harm your chances of M&A success, Wolf argues, further stating that policies for this reason are set-up to prevent overpayment at DPDHL. For example there is a policy addressing how synergy potential are to be viewed:

“Pricing will always be based on company valuation performed by corporate M&A. As a general rule, the price must not exceed the fair value determined by the division, which excludes identified synergy potential.”

Since this is a general rule, there has been exceptions where large premiums have been paid, partly as a cause of the identified synergetic gains. It is an important and well-reasoned policy to comply with. However, it does not protect the organization against overestimating synergy potential and therefore also allowing for a higher premium in certain cases.

Moreover, Wolf explains the importance of **post-merger integration & management** to the overall success of the acquisition. Historically, there has been low, or close to none, focus- and management attention on post-closing activities like monitoring synergy potentials or integration follow up. Recently, however, the focus has shifted and it has been given more attention. Although, there still remains work to be done and they still lack reporting systems for post-closing management:

“Private equity companies have very good post-closing management systems. For example the financial reports that merged companies are supposed to provide on a monthly basis. The lack in DPDHL is that there is not a specific team which is monitoring the integration and making sure that the synergies that was defined is really happening. Sure, we do have controlling which does some monitoring, but the ownership of this task to a specific team is not there yet.”
Taking responsibility for tracking synergies means challenging senior executives and their decisions, Wolf discusses. Challenging senior management on provided information and also controlling their preformed activities is tough. Most often the challenge is to take on a “bad cop” attitude and having a negative stance towards the subject. Given the nature of what is required, it is usually an assignment that people try to avoid. Although, Wolf mentions that the post-merger integration and management can be improved with active management, strict monitoring and mandate to the teams.

To avoid mistakes in the future and ensure follow up, the discussion of post-closing management have been brought up in management meetings: “There is an ongoing discussion on how to best monitor acquisition to see if synergies are realized in the end”. In our view it is a very good idea to have these discussion and as soon as possible, set up a post-closing management process. We believe that it should be regarded as a necessity that the responsible managers should have the key tasks and assure a smooth integration. Also, they should have measuring tools available for post-merger integration tracking and follow up.

Furthermore, Wolf brings up the importance of project ownership for the M&A success. Without clear ownership, Wolf says, it is not unusual that the merger fail due to lack of care. One example is the InternetCompany (made up name due to confidentiality) which was a start-up company in an expanding market. There was no clear ownership as to who was responsible for the integration and realization of the synergies. In the end the InternetCompany was liquidated. However, it was not only the lack of ownership and team dedication that drove the company to liquidation. The founder left the company shortly after the acquisition had taken place. They were not happy with the organizational differences and the new operating standard introduced for the company. This, she argues, is a prime example of the importance of retaining key people and also being aware of organizational differences: “It is important to be aware of cultural differences and to the best of our ability tackle them”. According to Kitching (1967), companies can overcome these issues by the use of the right organizational structure and reporting system, which eventually will lower the organizational differences. Wolf argues that sellers should stay on board for the transition period in order to ensure a smooth transfer of knowledge and routines. In Wolf’s view, key people are those with commercial knowledge: “It is easier to replace the staff that do not have commercial knowledge. The CEO or the Chief of Sales are therefore hard to replace”.

Lastly, Wolf reasons that it is important to recognize that acquired companies might need further investment in order to be compatible with the current organization. We agree as this is an aspect that should not be underestimated and is needed to ensure a successful merger between the two entities. These
investments can for example be in infrastructure and IT technology between the interfaces of the two companies.

5.3. **MERGERS AND ACQUISITIONS — OUTSIDE PERSPECTIVE**

Below interview synopsis from interviewees outside the DPDHL group are tailored out. Also, a summary of the interviewee’s experience with M&A and career path is presented. This is important for the transparency and also for the reader to get a general understanding for the background of participants biased answers. For example, Kurmann’s views are colored by the experience in small enterprise transactions, in which his company operates.

5.3.1. **JÜRG KURMANN**

Mr. Kurmann is the managing partner of the bureau Jürg Kurmann Merger & Acquisitions where they operate as M&A advisors in the small- to midrange sector. On average, they complete 1-2 transactions on a yearly basis, depending on the size of the firms. He has a background in forwarding, studying finance at the university and working four years in strategy consulting, three years in strategic marketing before starting the M&A advisory business. They have a special focus on life science but most of the projects are international and basically across all industries, with exception of real-estate, tourism and finance.

5.3.1.1. **DRIVERS, MOTIVES AND OBJECTIVES**

Kurmann emphasizes that there are many different M&A motives and objectives depending on the situation, there is also a difference between theory and practice. In theory, Kurmann says it is agreed that a strong driver for M&A is to create *shareholder value*. *Synergy* is also a very important driver for M&As, even though they are usually overestimated. It is also important to have synergies challenged by third party:

> “It is very important that the synergies are challenged by outsiders. Not only the sponsors of the transaction. Synergies assumptions should always be challenged by people that have nothing to do with the transaction. Because normally, they are widely overestimated.”

A potential driver can be **CEO hubris/ego**, but this is according to Kurmann a side aspect. If one would have taken out all the CEO ego from every M&A transaction, then the M&A activity in the market would not be much different. This is put in contrast to what is written in the theory, which stresses the CEO ego as an important driver and motive. Although it is important to mention here that Kurmann’s views are colored by the experience in small enterprise transactions, in which his company operates. This motive might be particularly present in the mid or larger M&A transactions. Further research is needed in order to test if this indeed holds true or not.
Another driver he highlights is diversification. When there are no more opportunities in the market in which the business is operating then the general rule is to provide dividend to the shareholders. But this is perhaps not the most preferred way of utilizing the excess cash in the view of the CEO and management teams. However, there should be a thorough calculation if the diversification does provide a high enough return to overcome the cost of capital and required return on equity. Private equity firms have followed diversification strategies very successfully.

Moreover, some companies are driven by the goal of gaining market power. Kurmann explains that the main reason is to get pricing power over competitors. But it is not always the goal to become market leader and the driving factor should be put in relation to the relative market share. A smaller player with low market share might for instance not be driven by gaining market power to the same extent as a medium or large player. Also, Kurmann states that the industry might play a role here. If the company is operating in an industry where economies of scale play a big role, i.e. if it is capital and investment heavy, then the driver might be stronger. On the flip side, i.e. within the service industry where having a bigger market position is not always related to pricing power, the driver might be lower. However, he argues that normally, economies of scale do play to your advantage.

Being in the small to medium transaction field in private takeovers, Kurmann says, many companies selling their businesses are driven by succession issues, protection issues and changing market conditions. On the other side, the buyers are mainly driven by growth and acquiring capabilities: “Having a value generated growth aim with the merger is probably the highest driving factor”. In one particular M&A transaction, Kurmann experienced a strong drive from the buyer to acquire capabilities. In this case, the client was in the textiles separation industry and was looking to add other technology like ceramics or membranes separation. The whole process was driven to add that specific capability.

Lastly, Kurmann argues some companies are also using M&As as a takeover protection mechanism. For example before being subject to a takeover, the company can merge with or acquire another company, and thus change the landscape. Kurmann referenced a strategy called the “pac-man defence mechanism” where basically the target company tries to flip the situation and overtake the acquirer instead.
5.3.1.2. **PERFORMANCE FACTORS**

According to Kurmann, a **successful integration process** is key for merger success, to have a successful integration process it is important to have **clear ownership** in the M&A task distribution:

“I think it is very important that the integration project has a clear ownership, which is sometimes the problem especially when the CEO by himself makes the deal without consulting the organization. Then nobody is really responsible. With a clear ownership process comes also milestones which can be used as post-merger performance measurement.”

Furthermore, Kurmann thinks it is important that the ownership is clear already in the negotiation phase of the deal. During the negotiation there is more transparency as to who the management people on the other side of the deal are. Therefore, already during the negotiation phase one should determine the integration team and what they should fulfill. The team must be fully briefed immediately and when closing the deal kick-start directly.

Additionally, another very important performance factor Kurmann discusses is **doing your homework properly**. This means, among other things, to make sure you understand the business, the synergies, understand what you are buying, understanding the markets, doing the due diligence properly etc. On many occasions the acquiring companies have been surprised by market changes because they did not really know the markets they were buying into.

Kurmann argues that when deciding the purchase price, you need to ensure that you have the synergies to support the price. Therefore another performance factor is the **purchasing price**. **Overpaying** by not having the synergies to support the price might have a negative effect on the deal. However, in Kurmanns experience, it is never a matter of plus or minus 10% difference in price. This is mainly because of three factors: (1) complexity in the calculation of synergies, (2) assumptions about the future and (3) changing environment. Even though it is important to have a quantitative approach when calculating the synergies, there are many uncertainties with assumptions and outside factors affecting the company and also the success for the M&A. Therefore, Kurrmann reasons that it is a more complex relation between success and price then to simply say that some percentage points above the calculated intrinsic value would be a deal breaker for the transaction. Kurmann says that “if something is to be regarded as overpaid it has to be so by a large margin, and if that is the case, then probably in eight out of ten situations, it is also strategically a wrong decision”. A more strict approach on the overpayment topic is taken by theorists. Researchers from the finance discipline overall agree that if the premium is too high, then the "valuation error" is seldom recuperated by the potential synergy effects and that the transaction therefore will fail
financially. Diaz et al. (2009), even assigned a percentage point and argue that bidders paying more than a maximum of 21 percent could be overpaying for a deal and thus experience negative effects on financial returns.

Another performance factor to take into consideration is the organizational fit between the merging entities, Kurmann argues. But it always depends on how deeply integrated the organizations aim to be, he adds. The company can in essence be treated as a standalone entity and not change at all or be well-integrated to a point where one cannot recognize the original company anymore. This depends on the industry and also the synergy potentials. For example, a network of petrol stations with up to 100 petrol stations might treat the merger as deeply integrated, with same brand and systems/structure. But if new capabilities are acquired, as a software company, a standalone approach might be adapted with little integration. Here the aim is that the standalone business delivers the capability without interfering with the core business.

In closing, Kurmann emphasizes the importance of retention of key people. While it is indeed important to keep the key people in the business it is not a guarantee that the M&A will be successful. When doing your due diligence, Kurmann reasons that it is necessary to identify the key people and create a contingency plan for what would happen if they decided to leave the company after the transaction, saying that:

“This is especially important in people centric businesses, which usually tends to be smaller. For example, McDonalds is also to some extent a people business, but it is also a big company with strong brand and standardized systems. Therefore, people are also more replaceable. Normally, the larger the corporation, the less dependence and the smaller the company, the more you want to be sure who the key people are and that they are staying.”
5.3.2. **Hugo Preutz**

After graduating the Industrial Engineering and Management program at Linköping University, Mr. Preutz started off his professional career as Investment Analyst at Brummer & Partners (16 months). He later joined Islandic Bank Kaupthing IBD as Lead Equity Analyst (17 months). Mr. Preutz then went on to work as Management Consultant at McKinsey & Co. in Stockholm, taking on projects ranging from growth strategy, commercial due diligence and merger synergy assessment. After four years, he moved on to Swedish steel company SSAB, focusing on the buy side of the firm’s M&A transactions (2.5 years). He is currently Director of Group Mergers & Acquisitions at Nordea, also focusing on the buy side of transactions. With his experience in both the buy and sell side of M&As, Mr. Preutz has, just like Ms. Wolf, a holistic understanding of why deals are triggered and factors that may affect the performance. In reading the excerpts from the interview below, we would like to remind the reader that the views and thoughts expressed are those of Mr. Preutz personally and does not necessarily represent the views of Nordea.

5.3.2.1. **Drivers, motives and objectives**

Offering his view on why firms engage in M&As, Preutz reasons that:

“In essence, it is rather simple. Most M&As can be tracked back to identifying a need or following a vision when realizing that achieving this organically would take far too much time, and that there already are firms much better at this than us, then an M&A process may be initiated.”

Following up on his initial remarks, Preutz emphasizes economies of scale, economies of scope, entering new markets and acquiring capabilities as significant drivers of M&A activity. He draws a comparison to the historically redundant telecom industry where they had to set up parallel networks. In that case, there was a clear industrial logic for horizontal integration between firms to realize cost cutting synergies by sharing the costs and achieving economies of scale. Moreover, Preutz explains the economies of scope motive by giving an analogy to a company in the truck and bus retail industry:

“...Let’s say that you have customers utilizing trucks and buses and sometimes they are also in need of dumpers, and that they currently have to make their purchases of dumpers elsewhere. In that case, you have an opportunity to seize economies of scope by co-marketing and co-selling dumpers via the same marketing and distribution channels, at no significantly added cost.”

Furthermore, the case above illustrates how clear revenue increasing synergies can be obtained by diversifying the business in a product-extension M&A. The cost synergies are also present in the example as a successful integration of a target firm selling dumpers makes it possible to cut a layer of
management, downsize administration and remove overhead costs, Preutz argues. The firm will be able to maintain the same revenue stream from the sale of trucks and buses while adding the revenues from the dumpers. He concludes the discussion on the topic by stating that the acquisition is a cause of observing synergetic benefits, growth prospects and possibilities to gain market shares.

On the acquiring capabilities and entering new market motives, Preutz gives an example of a Swedish shoe company aiming to expand their business to neighboring country Finland, where there is a firm with a strong and broad network of stores. He argues that naturally, it is difficult to access cross-border markets because of entry barriers such as language differences, customer loyalty and distribution channels and acquiring these capabilities by purchasing the Finnish firm is an excellent way to expand the business.

However, in the context of identifying a need or wanting to transform the business, Preutz argues that the synergy motives above are subordinate, as they are not the primary reasons for transactions. He characterizes them more as side effects of the decision to achieve a broader strategic goal. A CEO will first and foremost work to cover a need rather than trying to achieve synergies, he argues. Another analogy Preutz draws for the role of strategic transformation in triggering M&A activity or corporate restructuring is how individuals think of change, saying that:

“If I am a person in my 20s envisioning the future when I am 40, there will be a delta between my current and future situation, a discrepancy. I may desire to own or drive a BMW, but I won’t be able to construct the car myself if you know what I mean. It would take too long and require people, expertise and assets which I won’t have. So instead of developing it myself, it is much easier to just buy it.”

The same is true for companies, he argues. Preutz explains that if a company is operating in industry X today, selling product Y but wants to enter a new market or change direction, the same logic applies as it would take too much time and effort to build their own capabilities organically by investing in R&D, assets, people etc.

That was the industrial context of M&As, then there are the financial drivers of M&As, Preutz continues. He discusses how an excess of cash can drive M&As. He reasons that if the management at the end of the year stand before the alternative to either pay out the bottom line as dividend to the shareholders or reinvesting it into the business to earn a 15-20% return, then reinvesting it in the form of M&As can be attractive. Preutz asserts that this is especially true if the firm has a weighted average cost of capital around 10-15% and they can find an investment yielding 20-25%, then an M&A transaction definitely could be triggered.
Still on the topic of financial drivers, Preutz goes on to share his experiences with private equity (PE) firms and how they differ from industrial corporations. A motive driving M&As among PE firms he mentions is **multiple arbitrage**. He mentions the health care industry where a PE firm can acquire a private clinics with 5 employees, 10 MSEK in revenues and EBIT of 2 MSEK. The PE firm may pay 5 times EBIT, and as soon as it is integrated in the larger context, the value of the target will be 10 times EBIT. If you consolidate various small companies and integrate them under the same umbrella, the value of the combined firms will rise if there is a clear strategic/organizational fit between them. The value added by amalgamating the firms comes from the synergy potentials like achieving a critical mass, economies of scale/scope and sharing know-how, Preutz concludes.

When mentioning the possible **tax motive**, Preutz argues that in his personal experience, acquiring other firms in order to seize tax benefits is rare, or non-existent. The tax benefits would rather follow later on, after a decision to acquire already has been taken and is not a stand-alone reason to engage in a transaction. Moving on to the last financial motive, Preutz highlights the **diversification motive**. Firstly, he argues against the diversification motive, drawing parallels to the decrease of conglomerate mergers seen during the 50-70s. Referencing the theory on the topic, he gives examples of the fact that diversified companies are traded at a discount, such as the investment firms Investor, Industrivärlden and Kinnevik. Nevertheless, Preutz reasons that managers and CFOs have a drive to **diversify their cash flows** to reduce risk and in those cases can find an unrelated transaction attractive.

Moving on to the personal motives triggering M&As, Preutz alienate himself from theory by saying that he has little or no experience of **CEO hubris/overconfidence**. He states that CEOs rather tend to be underconfident because of fear, uncertainty and difficulty to foresee the actions of a counterpart. He further argues that sometimes, M&As could very well be driven by **CEO excitement**, reasoning: “Imagine that you have a CEO that has worked for 20 years and now wants to do something new, challenging and exciting”.

On the second of the personal motives, the **managerialism/managerial self-interest** motive, Preutz says that he would rate managerial self-interest as a stronger driver than CEO hubris. However, he concludes that in the bigger context, this driver too is rather weak and is not a stand-alone motive to initiate an M&A transaction. He argues that the self-interest is a natural drive for anyone, but that this is mitigated by the board as deals exceeding 50-100 MSEK in 99 % of the cases have to be approved by the board of directors. Therefore, he argues, the proposal to acquire or merge with another company has to be well prepared and needs to be
firmly established among the members of the board. The board in turn must be able to gain approval for any decision from the stockholders. Preutz concludes that, if the fundamental logics behind the deal are there, then yes, self-interest could be the straw that breaks the camel’s back.

In conclusion, we brought up the **globalization** motive and asked Preutz if he saw a natural drive from firms to be truly global. Preutz agreed that he definitely could see that companies within the logistics and transporting industry like DPDHL indeed were driven by following the customers. He reasoned that in their case, being global is a natural value proposition to the customers and if they cannot ship to wherever the customer is, they will lose their competitive edge.

### 5.3.2.2. Performance factors

In Preutz experience, having a **purely financial goal** with the acquisition is not optimal for the success and development of the combined entities. Preutz reasons that **multiple arbitrageurs** that try to profit from price inefficiencies in the market care less of the business and its future endeavors. There are many of these examples where acquirers focus were not on the business and its future but rather on the short term profit. Many times, the acquirer has put stress on the company by integrating an overhead or reporting structure which in turn has added cost and decreased the ability of executives to perform. Usually this is the tipping point where the development of the acquisition start to decline.

Furthermore, according to Preutz there is an advantage having an **experienced and dedicated** project team to the overall success of the merger. Although, the experience in Preutz opinion is more important in the transaction phase than in the integration while the dedication is more important in the integration stage. Experience is important when screening for acquisition candidates and when evaluating the synergy potentials. In Preutz opinion, experience is about understanding market dynamics and having an understanding of the business and what drives profits in that specific industry. When it comes to the practical side of the transaction, usually experience is less important since third party experts can be consulted:

> “Let’s say company X wants to acquire company Y. The question is if this is a good deal or not? For an employee that have been working in company X for a short period of time, even at executive position, this will be a hard question to answer. Though, management with 25+ years’ experience will be able to tell if this is a good deal or not, if there is a logic reasoning or not. Here I believe that experience is much more important. When it comes to the actual execution of the transaction, the practical side, third party experts can be consulted and experience plays a smaller role.”
Preutz believes that experience follows a learning curve that is exponential to begin with but then planes out as more experience and deals do not effectively lead to better ability to successfully acquire and manage companies. When it comes to having a dedicated project team with clear ownership Preutz believes that it is important in the integration stage but also that the operational lines need to figure out how to work together, this is not something an external team can decide on. However, the project team should coordinate and also track the identified synergies. It is very important that the M&A integration team has the tools and mandate required to do their work. They should be given the ownership to do this, Preutz explains:

“The M&A integration team should have close and direct alignment with the CEO and CFO. Furthermore, they should be given the mandate to question and challenge integration tasks performed by senior executives. They should be regarded as a standalone special task force independent of the current organization. There are many ways to create transparency and enhance ownership. For example, in one merger we had a HTML cloud-based software to track synergies and integration plans. This software was fully transparent with access for management. It was our way to create local ownership.”

Moreover, on the topic of overpayment, Preutz explains that there are many aspects to whether or not it will affect the success and why irrational payment occurs. Firstly, according to Preutz it all depends on how you define success. If it is purely financial, if it is becoming more robust as an organization or to be better positioned for the future. Secondly, when talking about synergies, Preutz believes that you only should pay for cost synergies while income synergies should come as a bonus. This is due to the fact that a company has full control over its costs while the incomes are outside the control of the company. Therefore, cost synergies are easier to calculate and to lay out a plan for than income synergies. Preutz draws on the whiteboard (figure 16):

![Figure 16. Income and cost synergies. Source: Preutz (2017)](image)

Thirdly, the reason why overpayment occurs is due to the fact that there are other factors affecting the decision than simply looking at a calculation spreadsheet. The process becomes less theoretical when prestige, media, expectations etc. comes into play during the bid process. Preutz summarizes his thought on overpayment by
saying that it will not directly make or break a deal. Even if there might be added pressure on management to realize synergies in the case of overpaying for a target, it is not crucial for the overall success, concluding that: “It is always better to pay a lot for something good then little for something bad”.

Preutz further elaborates on the motive of retaining key people of the target company. Even if, according to Preutz, the retention of key people is important to not fail with the merger it might not be equally important for the success. Also, there are different aspects to retaining key people, Preutz explains. In certain occasions there is even an aim to get rid of key people, like the CEO, if you think that the firm was mismanaged and needs to be replaced. But in 9 out of 10 cases, retaining key people is the aim and therefore there are also incentive practices to do so, like earn-out models. Usually the retention period should be 12-14 months, until the integration is finalized in order to have a smooth transition and to transfer the knowledge between the combined entities.

Lastly, Preutz discusses the integration of companies of different size. During his time at SSAB he was part of a horizontal merger of SSAB (25 BSEK) and another firm (20 BSEK). From his experience, he concludes that, there are bigger difficulties to integrate larger companies compared to smaller ones:

“There are more political challenges when integrating large corporations. Also the needed integration attention it higher. Basically there is a double set of each function like HR, IT, Sales etc. that needs integration. Conflicts as to whom will become responsible may also appear and make it more difficult overall.”
5.4. SYNTHETIZATION AND RECOMMENDATIONS

Figure 17 below illustrates the color coding of the interviewees used in subsequent tables to show which drivers and performance factors the respondents have indicated as important.

Table 18 and 19 summarize the findings from the interviews with regard to the drivers and performance factors of M&A. Nota bene, the dots indicate expressed importance in the different motives/performance factors. It is possible that a factor has been discussed and mentioned during the interviews but not appeared in the tables. Furthermore, for those viewing this study in grayscale the dots represent the respondents in increasing order, just as shown in the figure above but transposed. I.e., Felix Maurer represents the left-most (yellow) dot while Hugo Preutz is the right-most (purple).

5.4.1. DRIVERS, MOTIVES AND OBJECTIVES

Table 18. Drivers, motives and objectives compiled from the interviews

<table>
<thead>
<tr>
<th>Economic and financial</th>
<th>Strategic</th>
<th>Personal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economies of scale</td>
<td>Market power</td>
<td>Managerialism</td>
</tr>
<tr>
<td>Economies of scope</td>
<td>Create market-entry barriers</td>
<td>Hubris</td>
</tr>
<tr>
<td>Increase profitability</td>
<td>Acquiring capabilities</td>
<td></td>
</tr>
<tr>
<td>Increase sales</td>
<td>Accessing new markets and overcoming market-entry barriers</td>
<td></td>
</tr>
<tr>
<td>Reduce costs</td>
<td>Resource independence</td>
<td></td>
</tr>
<tr>
<td>Diversification</td>
<td>Globalization</td>
<td></td>
</tr>
<tr>
<td>Tax benefits</td>
<td>Market for corporate control</td>
<td></td>
</tr>
<tr>
<td>Lower cost of capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pure financial</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
What pops out at a first glance is that Maurer and Wolf overall shared view on both which personal and economic and financial motives that drive M&A activity at DPDHL and disagreed on one of the strategic motives. We can also conclude that Kurmann and Preutz who offered an outside view on the matter agreed with many of the drivers mentioned by the DPDHL respondents. Two motives that were discussed readily in theory but showed to be less important were for DPDHL were achieving economies of scope and creating market-entry barriers. The reason forwarded by at least Maurer has to do with the dynamics of the industry. He mentioned that the forwarding business is very fragmented by nature and new entrants easily can set up shop with as little as a computer and a phone. 

However, comparing with the views provided by Kurmann and Preutz, a more nuanced conclusion to whether they indeed are important drivers or not, can be drawn. Condensing the theory on the motives together with the thoughts forwarded by Kurmann and Preutz, it is very much possible to imagine firms engaging in deals to achieve economies of scope and creating barriers to enter the market. Moreover, if you are successful in creating market entry-barrier, it will play to your ability to achieve market power and market leadership, which is something all the respondents agreed was an important strategic motive. 

Albeit discussed to varying extent in the interviews, the personal motives were overall thought of as less to not existent in the context of actually initiating an M&A transaction. What showed to be a not so insignificant driver in theory – the managerial self-interest motive -, proved to be less important than we initially believed. While Wolf and Kurmann barely acknowledged the driver, both Maurer and Preutz promoted the managerial self-interests as a “pushing over the counter” effect. Projects standing on a firm foundation of logic decisions and identified synergies could in those cases be tip the scale managers serving self-interests. They both concluded that the motive is not a sufficient, stand-alone motive to initiate an M&A. 

Furthermore, in exploring the motives behind M&A transactions at DPDHL and then comparing it with both theory and the outside perspective, it is rather clear that DPDHL does not engage in M&As because of motives more in the pure financial end of the spectrum, including tax motives and objectives to achieve a lower cost of capital. The only respondent acknowledging either the lower cost of capital or pure financial motives as a driver was Preutz. He did so with a rational take on why some companies may, not necessarily initiate but, be driven by achieving a structure where the cost of capital decreases or by firms seeking to make “multiple arbitrage”. Nevertheless, on the second motive, Preutz clearly pointed out that this was more a motive present at private equity firms with highly
experienced teams that perform M&As on a continuous basis rather than industrial players.

When assessing the overall importance of different drivers, we end up with six motives that seem to be of special status:

1. Diversification
2. Economies of scale
3. Market power
4. Acquiring capabilities
5. Accessing new markets
6. Globalization

Of these six motives, the two first are economic and financial while the rest are strategic, with the strategic clearly outweighing the economic and financial. The findings above rhyme well with the views shared by Preutz who emphasized that in essence, all corporate restructurings can be tracked back to an identified need for change or vision for strategic transformation.

Given the fact that a majority of the most important motives driving M&As at DPDHL were strategic, coupled with Maurer’s view that 90-95% of the M&As he experienced were successful, a reference to the success paradox found in theory might be in order. The paradox states that if managers are rational in their decision making, the usage of M&As as a restructuring and growth tool ought to be low. Yet, researchers have concluded that the interest for M&As persist to be high despite the empirical evidence that they in most cases do not create value for the acquiring company’s shareholders (Datta et al., 1992; Calipha et al., 2010; Weber et al., 2013). So, how does it all add up?

Concluding, we are inclined to agree with Brouthets et al. (1998) that success ought to be measured on multiple motives. In our view, they prudently argued that inadequate measurement of M&A performance is a reason for the seemingly high failure rates found in empirical studies. Furthermore, clear parallels can be drawn to the conclusions made by Preutz and Maurer, who emphasized the strategic motives over the financial. It would only be logic to measure the success of something by assessing whether or not the motives were achieved, be that strategic or financial.
5.4.2. **PERFORMANCE FACTORS**

In table 19 below it can be observed that eight out of fifteen factors are seen by all interviewees as important for the overall success of the M&A.

*Table 19. Performance factors compiled from the interviews*

<table>
<thead>
<tr>
<th>Strategic management</th>
<th>Organizational behavioral</th>
<th>Finance and the capital market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size</td>
<td>Cultural fit</td>
<td>Overpayment and premium</td>
</tr>
<tr>
<td>Diversification and relatedness</td>
<td>Organizational fit</td>
<td>Mode of payment</td>
</tr>
<tr>
<td>Strategic fit</td>
<td>The human factor</td>
<td></td>
</tr>
<tr>
<td>Due diligence and evaluation of target</td>
<td>Loss of key people and executive turnover</td>
<td></td>
</tr>
<tr>
<td>Pre-merger planning</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-merger integration and pace</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Previous experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clear objectives, goals and scope of project</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project managers and team member’s competence and commitment</td>
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</tbody>
</table>

The eight factors mentioned being Strategic fit, Due diligence & evaluation of target, Post-merger integration & pace, Clear objectives, goals and scope of project, Project managers & team member’s competence and commitment, Organizational fit, The human factor and Loss of key people & executive turnover. Of these eight factors there were mainly 2 factors where an observed potential improvement for DPDHL could be identified and thus improve the M&A performance. These were:

1. Post-merger integration and pace
2. Loss of key people and executive turnover

Consequently, we share below the interviewee’s opinions on these and also compare their views amongst each other and theory. Lastly, we conclude by sharing best practice that will help shape the future work for DPDHL.
5.4.2.1. **POST-MERGER INTEGRATION AND PACE**

When discussing post-merger integration, Kurmann & Maurer believes it is very important that the integration team has clear ownership. Preutz further adds to this that the integration team should be given mandate to question and challenge integration tasks performed by senior executives. They should be regarded as a standalone special task force, independent of the current organization. Preutz even gives an example of how to create transparency and local ownership by using a HTML cloud-based software to track synergies and integration plans. Furthermore, Wolf expresses that there are still work to be done at DPDHL when it comes to the post-merger integration and management. Wolf mentions that work is especially needed with regards to creating local ownership and tracking of synergies.

All in all, the interviewees’ views are aligned with what can be found in theory. According to Gates and Very (2003), it is of great importance have measurement mechanism in place for the integration progress. For the managers responsible to combine the two firms, it should be regarded as a key task to have control of the integration. They therefore need to have measuring tools at hand to realize this. The measurements used to control the M&A integration can be both financial and non-financial performance. Gates and Very (2003) further suggest that in addition to the above mentioned, it is important to have milestones and targets for each measure and define how they will be used to control and monitor the project.

Taken this into consideration, there is a possibility for DPDHL to enhance its overall performance by implementing a post-merger management and tracking system. In order for the tracking system to be successful it must be transparent for management and the integration team must have mandate to question figures provided and tasks performed. One example of such tracking can be viewed in figure 18 below, containing information on management, action log and timeline for the post-merger integration. Our recommendation is to use this tracking system on MyNet which is an open platform for DPDHL. Furthermore, below we tailor out our 5 recommendations for the post-merger integration and management:

1. Have detailed plans for M&A projects with clear project objectives, milestones, integration synergies and costs etc. Define and quantify the risks and opportunities for the project
2. Each project needs a dedicated integration project team with full ownership. Ensure that relevant due diligence findings have been addressed and will be implemented
3. Central tracking of all project financials in one database and a systematic reporting and reviewing approach (e.g. as below figure 18). Have an efficient tracking of all synergies by respective division i.e. HR, IT and Sales. Tracking should be transparent to create local ownership. Regular reporting
by the respective integration manager to show achievements of integration and its key milestones, synergies etc. on a regular basis to the review board.

4. Discuss corrective measures in case of deviations from the originally planned M&A progress, milestones, synergies, integration cost, etc.

5. Ensure to create a closing report once integration is over with lessons learned from every M&A project. Have a systematic approach with predefined KPIs to track the success rate of the project.

![Figure 18. Post-merger integration action tracker tool. Source: Produced by the authors](image)

5.4.2.2. LOSS OF KEY PEOPLE AND EXECUTIVE TURNOVER

All Interviewees have stressed the importance of retaining key people for the success of the merger. Maurer explains that retention of key people is important in order to ensure a smooth transition and knowledge transfer to the new organizational setup. Also, Maurer states that retaining managers of the target firm is to be regarded as a good signal to the staff, while if managers leave than staff may feel unmotivated. Preutz and Kurmann both conclude that failing to retain key people can definitely “break” the success, but not necessarily “make” it.

Furthermore, Maurer, Kurmann and Preutz also share their views on incentive programs to keep key people. Various earn-out models exist and according to Preutz key people should be incentivized to stay for at least 12-24 months. Wolf and Kurmann both elaborate on which employees are considered easier to replace. Both conclude that staff with commercial knowledge is harder to replace, i.e. CEO or Head of Sales.

Lastly, their views are aligned with statement of Weber et al. (2013) that failure to retain key people consequently drives the company into unexpected obstacles and usually lower the likelihood of success. Below we tailor out our 3 recommendations on the topic of retaining key people:

1. Identify key people and their roles early in the M&A process, i.e. during the due diligence, and ensure their commitment and involvement
2. Incentivized key people for a stay of at least 12-24 months
3. Track the knowledge transfer from key people to their successors with clear milestones. Have corrective measures for non-transferred knowledge
6. CONCLUSION

Below, the previous parts of the work are brought together. The aim and research questions are addressed and a section on possible future research is provided.

6.1. ADDRESSING THE AIM AND RESEARCH QUESTIONS

Looking back at the aim of the thesis and the research questions, the purpose of this study has been to explore and evaluate the drivers causing M&As and factors affecting the performance of the transactions at DPDHL. We also asked what DPDHL can learn from theory and practitioners from outside the group to better understand the performance of their transactions.

With regard to the drivers, we have found that M&A transactions at DPDHL primarily are triggered by strategic motives, such as achieving market power, acquiring capabilities, accessing new markets and lastly to follow customers. As previously referenced, Brockhaus (1975) and Seth et al (2002) underscore that the ability to fully understand the motives behind an M&A is imperative to effectively appreciate the performance of the transaction.

Now knowing that a majority of the most important motives driving M&As at DPDHL are strategic, and that Mr. Maurer at DHL thought that 90-95 % of the M&As he experienced were successful, a reexamination of the success paradox mentioned in the problem statement could be prudent. As presented earlier, the success paradox stated that there is a discrepancy in the interest to engage in M&As and the success rate. All in all, we agree with Brouthets et al. (1998) that inadequate measurement of M&A performance is a reason for the seemingly high failure rates found in empirical studies. Further adding to this conclusion are the views added by Mr. Preutz at Nordea and Mr. Maurer at DHL, who emphasized the strategic motives over the financial ones.

Moving on to the performance of M&As and how they might improve, the biggest change for DPDHL going forward will lie within post-merger integration and management. Overall, as can be read in the previous chapter, DPDHL has systems and procedures that are consistent with theory. However, there is a need to develop an independent, non-political, and transparent setup for M&A teams to better integrate and track performance after each transaction. The aim should be to create local ownership at all levels to better reap synergy effects. There are tools that can help to create transparency, e.g. cloud-based software to track synergies and integration plans. Furthermore, there is a potential benefit to streamline the strategic models used to retain key people after the merger.
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