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# Förvärvsstrategi

## En fallstudie inom familjeföretag

Filosofie kandidatuppsats inom Företagsekonomi

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# Acquisition strategy

## A case study within family businesses

Bachelor's thesis within Business Administration

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# Sammanfattning


Dagens ekonomiska klimat är kantat av möjligheterna och hoten från globalisering, ökad konkurrens och en alltjämt ökande takt, och ända sedan 1800-talet så har sammanslagningar och förvärv varit ett viktigt sätt för företag att konkurrera. Sammanslagningar och förvärv är aktiviteter som oftast styrs av begäret att uppnå synergi effekter, marknadsandelar, konkurrensfördelar och skalfördelar. I dag ligger mycket av medias och den akademiska fokusen på börsbolag, men Sveriges många små till medelstora privatägda företag, till exempel familjeföretag, bör inte falla i glömska. Dessa familjeföretag är olika jämfört med andra företag, inte bara när de kommer till ägarstruktur, men även på de organisatoriska och strategiska planen. Med detta i åtanke så verkar det finnas en lucka i den akademiska litteraturen när det kommer till just den här sortens frågeställning kring familjeföretag.

## Syfte

Denna uppsats kommer undersöka förvärv inom familjeföretag med anledning av att öka kunskapen kring deras förvärvsstrategier och motiv. Författarna kommer även att studera till vilken grad kulturen influerar dessa strategier.

## Metod

En fallstudieteknik valdes för att uppfylla syftet. Fallet behandlar förvärvsstrategin inom två medelstora familjeföretag, ROL AB och Bröderna Brandt Bil AB. Båda företagen har använt förvärv som tillväxtstrategi, och intervjuer genomfördes med strateger inom företagen för att samla in empirin.

## Slutsats

Förvärvsstrategin verkar huvudsakligen styras av kulturen i de förvärvande och förvärvade företagen. Motiven påverkar också den valda förvärvsstrategin, och författarna identifierade också att förvärvets utfall till stor del beror på tidshorisonten som tillåts. I familjeföretag verkar det också som om ett lyckat förvärv fastställs av fler aspekter än i t.ex. börsföretag, där de finansiella avkastningen är viktigast. Värt att nämna är också att företag som internationaliserar måste vara beredda på att acceptera högre risk.

## Bachelor's Thesis in Business Administration

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# Abstract

The context within which firms exist today is lined by the opportunities and threats of globalization, increased competition and a constantly intensifying pace. Ever since the 19th century mergers and acquisitions (M&A) have been an important way for firms to compete. Mergers and acquisitions are largely fuelled by the desire to attain synergies, market power, competitiveness and economics of scale and scope. Today, much focus in media and theory is directed towards publicly traded corporations, however, the importance of smaller to medium sized, privately owned companies, e.g. family businesses, should not be overlooked. Family businesses differ from other corporations, not only on the ownership structure but also on other organisational and strategic characteristics. Further, research within acquisitions and family businesses is very limited and there seems to be gap in literature regarding this constellations.

## Purpose

This thesis will investigate acquisitions in family businesses in order to enhance the understanding of their acquisition strategy and motives. Further, the authors will study to what extent culture influences the acquisition strategy.

## Method

A case study approach was chosen to achieve the purpose. The case concerned the acquisition strategy within two medium-sized family businesses, ROL AB and Bröderna Brandt Bil AB. Both companies has used acquisitions as tools for growth. The data was collected through interviews with strategists at the two companies.

## Conclusion

The acquisition strategy seems to be mostly influenced by the culture in the acquiring and acquired company. Further, the acquisition motive also affects the chosen acquisition strategy. The authors also identified that whether a acquisition is successful or not depends on the time-frame. In family business, success also seems to be determined by more aspects than in e.g. public companies where success is driven by financial returns. In order to act in an international environment, one also needs to be prepared to accept higher risks.

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# 1 Introduction

*This chapter will introduce the reader to why this particular subject was chosen as a topic for this bachelor thesis. Further, the authors will present a brief background of corporate acquisitions and family businesses in Sweden which will lead on to our problem discussion. Finally the chapter will be concluded by the purpose of the thesis and delimitations of the research.*

## 1.1 Background

The context within which firms exist today is lined by the opportunities and threats of globalization, increased competition and a constantly intensifying pace. To combat their increasingly ferocious surroundings organizations constantly struggle to remain competitive by exploring new geographic markets, diversifying product lines or developing cost advantages. And ever since the 19th century mergers and acquisitions (M&A) have been an important way for firms to compete. (Gaughan, 1996)

The historical acquisition climate was dominated by large companies' competing over market shares, consolidating and horizontally integrating to achieve monopoly positions. This has, however, evolved into today's business environment where companies of all sizes view acquisitions as a tool for strategic change. The later part of the 1990s has been the most active and diverse to date, and further it is suggested that mergers and acquisitions are, if not the dominant, a very important growth strategy for the organizations of our time. The end of the twentieth century also brought along a change in motives, from the 80s focus on core and related businesses. Mergers and acquisitions are now fuelled largely by the desire to attain synergies, market power, competitiveness and economics of scale and scope. (Gaughan, 1996; Hitt, Harrison & Ireland, 2001)

Today, much focus in media and theory is directed towards publicly traded corporations, however, the importance of smaller to medium sized, privately owned companies should not be overlooked. The family run businesses, depending on definition, can represent approximately 95 percent of the Swedish company fauna. The family business is a category consisting of companies that are mostly owned and controlled by one family. They differ from other corporations, not only on the ownership structure but also on other organisational and strategic characteristics. For example culture, shareholder influence and long term thinking are all important aspects and in combination with the dominant standing of the acquisition it is bound to have effect upon how a takeover is conducted (Gandemo, 2000). With the majority of corporations in Sweden being smaller to medium sized companies owned by a few individuals, the assumption can be made that the broad waves of M&A activity to a large extent are a part of their survival and prosperity.

## 1.2 Problem

In the European, British and US markets, the number of acquisitions has increased notably during the last years (Frankel, 2005; Lye, 2005). Frankel (2005) also argues that this increase is partly caused by an increase in acquisitions made by small and medium-sized companies whereas earlier acquisitions have involved mainly large acquirers buying smaller companies. This is also reflected in theory where mainly the large corporations still are the subject for investigation. Since this is an important strategic tool for both large and small companies today, one can argue for the importance of studying the area.

Acquisitions can be a constant or temporary but, either way, a highly important aspect of the strategic processes in companies today. There has been very little research dealing with how and why ownership of the firm influences the strategic process within it, but several researchers emphasize the importance of further studies to clarify these questions (Nordqvist, 2005).

According to Hitt et. al, (2001), research has showed that only a small percentage of acquisitions are successful. The reasons for this are most often lack of planning, failure in the integration process or that the motive for the acquisition is wrong. Due to this fact, it can be interesting to study how this process can be managed better in order to avoid failure during acquisitions.

Some of the special characteristics of family owned and controlled businesses are a strong culture (Denison, Lief & Ward, 2004), strong social and emotional relations (Fletcher, 2002) and thus an extra complexity in general (Johannison, 2002). This would logically mean that the acquisition process would be even more difficult to manage in family businesses.

Sometimes, the market may more or less force companies to achieve fast growth or seize emerging opportunities both locally and internationally in order to stay in the market place and family firms are no exception despite their special characteristics.

## 1.3 Purpose

This thesis will investigate acquisitions in family businesses in order to enhance the understanding of their acquisition strategy and motives. Further, the authors will study to what extent culture influences the acquisition strategy.

## 1.4 Delimitations

The research within mergers and acquisitions is quite limited in Sweden so many of the theories are based on American and European research and statistics. The authors will of course take this into consideration and not try to draw conclusions for the Swedish market based purely on foreign research. Further, the research on acquisitions will mostly be limited to the pre-acquisition phase and will not investigate the post-acquisition phase in depth.

Although the authors are specific on what a family business is, the research in the theoretical framework may use or be based on slightly different definitions. Despite this, we consider the definition used to be broad enough and commonly acknowledged to encompass the significant part of the theories.

# 2 Frame of Reference

*In the following chapter the theoretical findings relevant to our research will be presented. The authors will start with Acquisitions and different aspects of the area. First, acquisitions will be defined and separated from the concept of M&A. Further, phases and possible motives of acquisitions will be presented. Acquisition decisions are of strategic nature, thus an overview of strategic theories are offered and linked to acquisitions. Other important aspects close to the subject are internationalisation and corporate culture.*

*Secondly, the field of family businesses will be introduced since it is the context of our research. This part will begin with an introduction to the field with a discussion around earlier and current definitions. Following is the special characteristics of family businesses with a special consideration to cultural issues. Strategic issues and internationalisation are discussed with special attention to the context of family businesses.*

*The final part of the frame of reference will link acquisitions with the context of family business to be the specific background to our research.*

## 2.1 Acquisitions

The first topic to be explained is acquisitions. It is, together with mergers, a topic that has been vastly explored so only the most relevant research will be included. In this section other topics like strategy, internationalisation and culture are also introduced since they are in some ways linked to acquisitions.

### 2.1.1 Dividing Mergers and Acquisitions

The authors believe that a definition of acquisitions is required to allow readers to fully grasp the problem and findings. This, however, post a challenge since a lot of literature uses the words mergers and acquisitions interchangeably or together not specifying the important differences between the two.

As noted by Sherman (1998) both mergers and acquisitions are usually two different means of achieving the same results. And in its simple state, where two companies with different ownership come together, there is no real need to separate the two words. There are, however, a number of factors such as strategic, financial and cultural impacts that influence a deal and which makes it important to distinguish between a merger and an acquisition. The difference is mainly that a merger consists of two companies that become one through a mutual exchange in control. An acquisition on the other hand involves a buyer who by acquiring a controlling percentage of a company's shares or all of its assets, absorbing it (Sherman, 1998).

Another definition that the authors believe illustrate our view of an acquisition is Gaughan's (1996) subsidiary merger. In his work he recognizes statutory mergers and subsidiary, where the latter is defined as two companies combining, only one surviving, the other seizing to exist and then becoming a new subsidiary or part of an existing one. This use of terminology also illustrates the ambiguity that surrounds the exact definition of an acquisition.

However, some common denominators can be found in almost all definitions of acquisitions. Johnson, Scholes and Whittington's (2005) definition, with their focus on strategy, suit this thesis while still including all the important points. By stating that acquisitions are company takeovers driven by a long term direction that configure resources and competences which creates advantages for stakeholders in the constantly changing environment.

### 2.1.2 Phases in the Acquisition Process

Within acquisitions one can identify different phases which can be studied. Frankel (2005) presents that the process is initiated with a decision to buy or sell from the different actors. This is followed up by the actor's preparation for the deal and the actual deal, which in turn is followed by an integration planning process and finally the closing of the deal. This is referred to as the pre-acquisition phase. After this comes the post-acquisition phase which represents a continuous integration process initiated to make the different organisations work together. During the 'decision to buy' phase, an important part is to identify the reason why the acquisitions is initiated i.e. to define motives. These range from increased market share to access to a certain brand. Also the integration planning can be structured in several different ways with regard to how, for example, people and knowledge are managed. (Frankel, 2005)

Research has been undertaken for finding the key success factors of the different phases since a large percentage of all acquisitions fail to meet expectations and acceptable returns (Hitt et al. 2001). In the pre-acquisition phase, due diligence, complementary resources and avoiding hostile takeovers are important. Due diligence is the investigation of the acquisition target and planning for the process. In this stage, it is important to be thorough and take into consideration all of the target's characteristics, financial condition, physical and intangible assets and management capabilities. It is also vital to find a target with complementary resources, different but simultaneously supporting of the other firms' resources, instead of just one where identical, or unrelated, resources can be combined. Friendliness is another key aspect to secure before closing the deal otherwise it will be difficult to create value and synergies from the acquisition. In the post-acquisition phase, examples of success factors are to create synergies, focus on core business and organisational learning. (Hitt et al. 2001)

### 2.1.3 Motives for Acquisitions

Motives for acquisitions are plentiful and can encompass complex patterns of sub-motives (Trautwein, 1990). Every situation is unique thus no motive, or set of motives, fits perfectly to every situation. Here follows the most discussed motives from theory.

In the literature the growth is given as the foremost reason for acquisitions. It is suggested that reasons for this could be an entry into a new line of business or geographical area, and the actual speed with which a company can achieve these desired effects is presented as a main reason for choosing an acquisition over an internal process (Gaughan, 1996). Another important reason is the synergy effect that an acquisition can produce. Basically, a synergy is when two companies create something together that is greater than the sum of their individual parts (Johnson, et al. 2005). Synergies themselves can be subdivided into two groups (Gaughan, 1996).

First, operational synergy effects which correspond to horizontal and vertical acquisitions where efficiency gains and operating economies occur. They mainly arise from the cost reducing effects from the combination of companies (Gaughan, 1996). This is a typical scale economy effect where the unit cost decrease as the size of the company grows (see figure 2-1) (Bade & Parkin, 2004). This phenomenon can also be called spreading the overhead. The larger output levels may also allow for increased specialization of labour and management. Another operational benefit is the economies of scope where the increased output might allow the acquiring company to offer a broader range of products. (Gaughan, 1996)

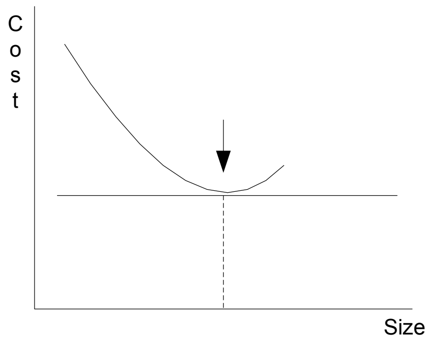


Figure 2-1 Economies of scale (Bade & Parkin, 2004, p.307)

Second, the existence of financial synergies is however not as widely recognized by scholars. In short these synergies occur by the combination of two cash flows reducing risk and therefore allowing the acquiring company to reduce cost of capital because they appear less risky. (Gaughan, 1996; Sherman, 1998)

Another common motive would be the want to diversify. In this case, a company acquires to enter new markets and produce new products or services. This motive has several value-creating effects and can be done by related or unrelated diversification where the expansion occurs into a field close to the original business or, respectively, something completely new (Gaughan, 1996). Rummelt (1986) presents several diversification strategies for an organisation. First, he discusses the discrete business which is a wholly undiversified business. Further, a discussion concerning diversified businesses is introduced. The basic forms of diversified businesses are constrained and linked related businesses. The constrained relatedness is characterized by a tendency to diversify within a narrow area whereas the linked relatedness diversifies to one area which leads to another and then continues further and finally ends up far from the original business. The most extreme form of diversification is the conglomerate. This is when the business expands into totally unrelated areas through several acquisitions (Rummelt, 1986). First, underutilized capabilities might achieve their full potential in the new activity much like the effects of economies of scale. Diversification will also allow companies to enter more profitable markets. Complimenting different areas of business can also have financial effects because of a negative correlation from which a firm can derive a less volatile earnings stream. (Johnson, et al. 2005, Gaughan, 1996)

The desire to go international is also a motive for acquisitions. By acquiring another firm abroad gives you direct access to that company's market, business networks, local business relationships and customers. The close connection to the local market is something a global firm cannot achieve by starting operations on its own (Andersson, Johanson & Vahlne, 1997).

Motives for acquiring can also be done for less rational reasons. Management hubris is when the ego of a manager has a major influence on acquisition decisions and behaviour. This would fall within the Empire-building theory of merger motives defined as when managers aim to maximize value for themselves instead of their shareholders (Trautwein 1990). Factors like status, feelings of achievement and personal issues between managers can present acquisitions made for the wrong reasons, hinder proper planning and make firms pay too much for the acquisition (Hitt et al., 2001; Trautwein 1990). There seems to be a gap in research dealing with these irrational acquisition motives much because managers are more inclined to state rational motives than admitting less appropriate ones (Trautwein 1990).

Trautwein (1990) discusses another irrational motive for acquisitions that stem from the different processes in the firm such as individuals' incomplete information processing capabilities, organisational routines, and political power. This is also connected to managers' strategic decision-making, structural and cultural influences (Trautwein 1990) but the evidence supporting this theory are scarce and ambiguous. However, in the light of this reasoning, an acquisition opportunity can be a source of an emerged strategy or a deviation from the existing strategy.

### 2.1.4 Strategy and Acquisitions

An acquisition is a strategic action with potential for a major impact on the organisation. Thus, strategy is an important subject to bring up. However, since it is one of the most explored areas of research in business literature the authors have decided to focus on the area of strategic change to conceptualize the actions taken by the organisations when deciding on an acquisition. Further, strategizing is introduced to legitimise the less planned and more intuitive decision making that the authors expect to find. Naturally, strategy will be discussed in the context of acquisitions but also connected to internationalisation and corporate culture.

Strategy and long-term survivability are in a correlated relationship for most firms. This is especially true for maturing firms. The ability to utilize the resources, from stable and established activities, in emerging projects with growth potential is crucial for achieving growth and a strong position compared to competitors. Diversifying is often the goal of such strategies and there are a number of ways a firm could build a hierarchy of self renewal. (Lorange, Kotlarchuk & Singh, 1994)

Lorange et al. (1994) identifies three self-renewal strategies. The portfolio strategy where the aim of the firm becomes to create businesses that interrelate, however, this must not be done with regards to the technologies of the firm since a financial balance can also be achieved considering that the goal here is to create balance and stability within the organisation. A crucial phase of the planning with this context is actually finding acquisition targets that balance the already existing entities. The business family strategy builds on and around a common core of technology or know-how. In this context the firm builds new but still related activities. This allows the firm to share resources throughout its different parts. This also leads to firms being acquired for their existing knowledge or resource base which the acquiring firm wishes to absorb. Lastly, the business element context is concerned with capturing certain market segments and particular customer bases. This is done by acquiring competitors which not only reduces competition but could also strengthen internal operations. (Lorange et al., 1994)

Self-renewal strategies has been conceptualised within the area of strategic change. A few aspects that stem from an organisation's strategic change are the developing interactions with its environment, customers, suppliers and products. The change can be a direct plan to tackle one area directly, but also the sum of the ways that current and planned resources are deployed. Changes in these interactions would be a broad definition of a strategic change as an academic term. This is, however, not sufficient since both the environment as well as day-to-day activities affects the strategy of a firm without necessarily having to be planned in advance. (Rajagopalan & Spreitzer, 1997)

From a rational perspective all sluggish factors, e.g. bureaucracy and policy, of an organisation are considered to inhibit change which becomes a weakness, thus the factors that facilitate change are considered strengths. With this lens, firms are mainly interested in improving their economic performance. Through a learning lens, strategic change is put in a contrasting perspective. The change is affected more by managers than by sluggish and facilitating factors. Managers in this perspective change the content of their firm's strategy by a continuous flow of small steps, either by direct decisions or by creating the need for or resistance against change. These small learning steps are not only an internal change process but can also incorporate the organisation's environment. (Rajagopalan & Spreitzer, 1997)

A more practical and less academically obscured way of looking at strategy is what Whittington (1996) calls strategizing or strategy as practise. It is concerned with the day-to-day processes that result in strategic outcomes. This approach seems to correspond better to the reality of the family business in that the often intuitive practices are conceptualized. In practice this identifies the individual actors and focuses on their actions by which strategy develops and gets realized. The strategic work is however not the same for all actors, some might contribute with the inspirational part such as spotting opportunities or grasping situations, while others work with the actual routines of budgeting, planning and presenting. There is often a specific pattern with which actors go about doing things, given their certain roles and different contexts. (Whittington, 1996)

This reciprocal relationship between the content and process of developing strategy further strengthen the notion of strategy being an outcome from day-to-day activities identified by entrepreneurs but often overlooked by scholars. Given this constantly ongoing process, organising and strategizing become intimately interlinked and in some instances broadening the base on which a strategy is built. (Nordqvist, 2005)

As stated above the activities that compose the strategy are highly affected by the context within which they exist. The top management is identified as an important arena here since they hold positions of power and a great deal of influence in an organisation. However the strategizing does not have to stem from a formal position or duty, unintentional activities also to a large extent affect an organisation. Management can also draw from actors in other arenas such as consultants. (Nordqvist, 2005)

#### 2.1.4.1 Internationalisation through Acquisitions

"Internationalization is the most complex strategy that any firm can undertake" (Fernández & Nieto, 2005, p.77) and it can simply be defined as a "firm-level activity that crosses international borders" (Jones & Coviello, 2005, p.284). A broader definition is "the process of increasing involvement in international operations" (Welch & Luostarinen, 1999, p.84). As explained earlier, it is a common motive for acquisitions (Andersson et. al., 1997) but is connected with strategic obstacles that need to be considered.

There are a number of different ways a firm can operate internationally such as exporting, importing or foreign direct investment, for example acquiring another company. In this section the authors will not go into depth in this complex area because it is not relevant to the purpose. However, it is important to have an understanding of some general factors that is important when a firm crosses the national border. A part of the purpose with this thesis is to investigate if the strategy of the firm is connected to whether or not the firm operates internationally.

One model of internationalisation is the Uppsala-model which starts with the fact that firms experience a high level of uncertainty (Welch & Luostarinen, 1999) and are therefore reluctant to make large capital investments when starting operations abroad. With this as a base, internationalisation is seen as a process of incrementally increasing the international involvement. The first step is typically exports followed by exports through a local sales agent. If the exporting continues to be successful, vertical integration follows when the exporting company acquires the agent. Finally, local production is established (Johanson & Vahlne, 1999; Johanson & Wiedersheim-Paul, 1999; Arvidsson, 1997). Arvidsson (1997) argues that it is a learning process where uncertainties and attitudes are changed continuously and it is the investment pattern that happens in distinct steps.

Johanson and Vahlne (1999) do not consider this process as a planned and on beforehand intended strategy. However, they argue that it is a constant adaptation to changing conditions for the company and its environment which correlates with the theory of strategizing.

It is the lack of market knowledge that presents an obstacle for firms and is a reason for this incremental chain of events instead of an instant large foreign investment (Johanson & Vahlne, 1999). The most significant differences between domestic and international operations are the lack of knowledge due to differences in culture and language. Cross border acquisitions require a special mindset with multicultural values and an openness and respect for cultural differences and settings. Operating, and making acquisitions, internationally is about blending the best qualities from the different national and organisational cultures into one (Hitt et al., 2001). Culture is a very broad and complex topic, which also is highly relevant in the context of acquisitions and family businesses, and will be thoroughly explained in the next section.

### 2.1.5 Culture

The broad and general concept of culture derives from Latin and has in western countries become a term for summarizing how one thinks, acts and behaves. This should not be confused with the other meaning of culture i.e. a term for education, art and literature. (Hofstede, 1997)

Culture can in some sense be seen as 'a mental software' that guides human behaviour. This includes, for example, how people greet each other and whether one shows feelings or not. Culture can be argued to lie in the border area between human nature and personality since it is learned during ones life time and influences ones personality and individual actions. It is a collective phenomenon meaning that it is shared among the social group one lives or lived within. (Hofstede, 1997)

One can divide culture into two categories, values and practices. Values are the core beliefs which direct our basic thoughts. Examples of this is what is good and what is evil, what is beautiful and what is ugly and what is normal and what is abnormal. This can be contrasted to practices, which include symbols, heroes and rituals, that more controls our behaviour than our thoughts. Symbols can be certain words or gestures that are shared among culture. Heroes on the other hand are legends or characters that signify model behaviour. Finally, rituals is recognized as the set of collective activities in the culture that are performed purely to signal the common culture e.g. greetings and religious ceremonies. (Hofstede, 1997)

#### 2.1.5.1 National versus Organisational Culture

This paragraph aims towards distinguishing between national and corporate culture. National culture is essential in the international acquisition process whereas corporate culture plays a major part in the integration process of all acquisitions.

Hofstede (1997) argues that there is a large difference between national culture and organisational culture. The difference lies mainly in what the culture controls. National culture mainly controls the values of the individual since this is what affects the individual through the family during childhood. On the contrary, organisational culture controls the practices of the individual. Since values are the core beliefs they are difficult to change and hence more or less set when the individual joins an organisation. In between these two lies occupational culture, this is culture that is mostly connected to the profession of the individual and hence it is founded in school i.e. the time between childhood and adulthood. Occupational culture affects an equal mix of values and practises. (Hofstede, 1997)

On the other hand, Adler and Jelinek (1986, p.74) argues that there are small or no difference between national and corporate culture; "Culture, whether organisational or national, is frequently defined as a set of taken-for-granted assumptions, expectations, or rules for being in the world". Further, Weber, Shenkar and Raveh (1996, pp. 1216) presents ideas defining corporate culture as "the beliefs and values shared by senior managers regarding appropriate business practice."

Desphande and Webster (1989, p.4) defines organisational culture as "the pattern of shared values and beliefs that help individuals understand organisational functioning and thus provide them norms for behaviour in the organisation". Further, they argue that there are several different definitions of culture which makes studies of the phenomenon complex and difficult.

Deshpande and Webster (1989) also present a few paradigms which explain corporate culture. Among them are comparative management and contingency management which views culture as a variable that affects the organisation. These perspectives see culture as a lever or tool for management to set the course of the organisation and implement strategy efficiently. Comparative management argues that corporate culture affects how values and beliefs develop in the organisation whereas contingency management researchers believe that corporate culture is something that affects the performance measurements in the organisation. (Deshpande & Webster, 1989)

#### 2.1.5.2 Corporate Culture in Acquisitions

Strategic decisions are made by people in an organisation that are affected by the specific culture in the corporation. Since the decision to acquire is such a decision, corporate culture is important to consider in this context.

Daniel and Metcalf (2001) discuss how one should treat cultures and the combination of cultures in a merger or acquisition. First, a common assumption is that it is easier to acquire a small and newly founded company than a large corporation. This belief is both true and false. It is true when the target's owner consist of cash-hungry entrepreneurs that want to get their pay-off as soon as possible. On the other hand, if the owners and founders consist of idealists that are really convinced that what they have created is something unique and perfect. In this situation, one might find it hard to integrate the target culture into the acquirer's culture. In general though, it is the case that the complexity of integrating new organisations grows with age and size. The complexity also increases with the amount of prior mergers and acquisitions that the organisation has experienced and how many nationalities the companies consist of. One can also argue that companies that act according to their own beliefs and visions experience more loyalty from their employees.

When one consider combining two cultures in some way it is important to first get to know the organisational culture more in-depth. This can be done by asking people what they believe would be said in various situations. In order to get a more holistic view of the culture it would be good idea to also investigate what people believe would be thought but not expressed in the same situation. The change from one culture to another can be conducted through promotions of employees that represent the desired culture i.e. rewarding desired behaviour. A major obstacle to a successful cultural integration is the expectation from management level that everything should go perfect and smoothly. This may actually put to much pressure on the organisations and result in deceptive behaviour in order to please management. (Daniel & Metcalf, 2001)

Research shows that culture plays an important role in mergers and acquisitions. This can be seen through the emphasis CEOs across Europe devote to the issue. According to Weber (1996), a survey showed that the integration of cultures in a merger or acquisition is the most important issue. The CEOs even argue that the integration is more important than financial factors. There is a need to build an atmosphere that can support the change process efficiently. If this atmosphere is created, one will reach a stage of homogenization which might, in the long run, result in positive financial results. (Weber, 1996)

#### 2.1.5.2.1 The Modes of Corporate Culture Model

Trompenaars and Hampden-Turner (1997) presents a model (see figure 2-2) for classifying the corporate culture that exists in an organisation. When doing this one needs to look at mainly two dimensions 'equality – hierarchy' and 'orientation to the person – orientation to the task'. Equality-hierarchy describes the power structure in the organisation. Equality indicates a flat organisation where supervisors and subordinates are more or less equals whereas hierarchy describes an organisation where the difference and distance between supervisors and subordinates is very clear-cut. 'Orientation to person' specifies that the organisation is more focused on the individual person rather than the performance whereas 'orientation to the task' focuses on the accomplishment of the assignment no matter how it gets done. By combining these two dimensions one gets a grid with four areas containing ideal corporate cultures; the family, the Eiffel Tower, the guided missile and the incubator. (Trompenaars & Hampden-Turner, 1997)

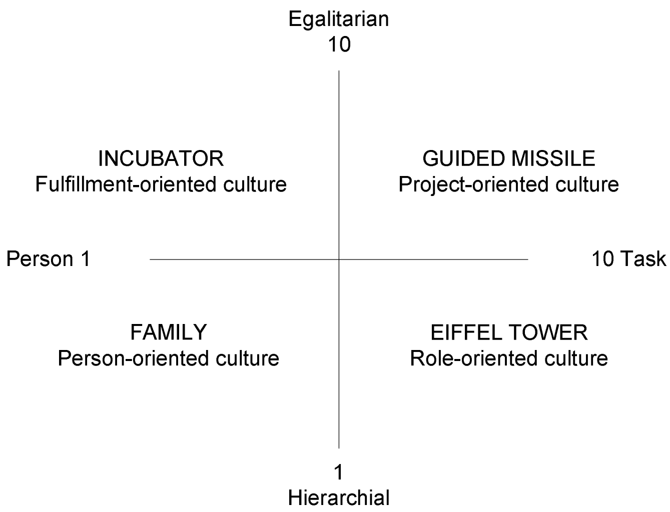


Figure 2-2 Corporate images (Trompenaars & Hampden-Turner, 1997, p. 159)

*2.1.5.2.1.1 The Family Culture*

The first corporate culture is called the family culture. This culture emphasises the importance of the person rather than the task. Further, it has a hierarchical structure where the supervisor has great authority. It is called family culture because the supervisor has a role similar to a father in a family with a power base originating from affection to the supervisor/father. This means that the supervisor has authority and experience that greatly exceeds the workers. Furthermore, the supervisor is influential in all situations, not only purely work-related situations, hence the supervisor takes care of the general happiness and welfare of the employees e.g. housing and that the wage is sufficient to support the family. The family culture can be classified as a high context culture. This means that there are a lot of in-house jokes, stories and traditions which bond the members together. An additional result of this is that it effectively excludes non-members. Organisations with this culture generally find it difficult to work in project groups or matrix structures due to multiple supervisors. The culture points out that it is more important to do the right things than to do things right. (Trompenaars & Hampden-Turner, 1997)

*2.1.5.2.1.2 The Eiffel Tower Culture*

The second corporate culture to be analyzed is the Eiffel tower culture. This culture is similar to the family culture in the sense that it incorporates a hierarchical structure while it differs through the focus on the task rather than on the person. The core belief is that if each person completes what is expected from the role, everything works out perfectly. This is then overlooked by the supervisor. The role of the supervisor is different here from in the family structure as the power originates from the role as supervisor and not from any form of affection. An example would be if the supervisor would die one day, you would get a new one the next day that you would respect and obey to the same extent. The supervisor is a role and not a person. On the contrary to the family culture, the Eiffel tower structure does only encourage work-related supervision. To care too much about an employee is seen as dreadful since it might skew the supervisor's judgement. (Trompenaars & Hampden-Turner, 1997)

#### *2.1.5.2.1.3 The Guided Missile Culture*

Thirdly, one can identify the guided missile culture in the top-right corner. This culture differs substantially from the others with a non-hierarchical structure. This is a task-oriented culture similar to the Eiffel tower culture but, where the Eiffel tower structure is organised around the importance of one role, the guided missile emphasizes the end result and not the means to reach the result. The non-hierarchical structure is substituted by project groups with a large amount of professionals. The groups have leaders that are more co-ordinators and organizers that structures work of the project group. The human is seen as a resource that will be valued due to performance and contribution to the common outcome. This culture can be combined with the Eiffel tower culture to make it more stable and consistent. This is commonly conducted through a matrix organisation where you report to a functional supervisor (Eiffel tower) and at the same time work in projects where you report to the project leader (guided missile). This assures both the success of the individual project and the sustainability of the organisation and employment. This is important since an organisation with a true guided missile culture might be hard to manage and hold together due to a tendency of the employee to have a higher loyalty to the profession than to the company. A pure guided missile culture may also result in a very individualistic organisation viewing humans as disposable resources hence leading to high turnover and difficulties to keep competence within the organisation. To summarize, the guided missile culture is characterized by management by objectives and the employees are paid by performance. (Trompenaars & Hampden-Turner, 1997)

#### *2.1.5.2.1.4 The Incubator Culture*

The final corporate culture is the incubator culture. This culture is very different from the others since it has a non-hierarchical structure and a focus on the person rather than the tasks. Essentially, this culture focus on the person to the very extent that the organisation has a secondary importance. This means that there is more or less no structure at all and the co-operation consists mostly of practical issues e.g. heating and lighting. The culture is characterized by freedom i.e. each part of the organisation is co-operating freely and independently. This structure is very uncommon in larger companies and is predominantly used in innovative and young companies in e.g. the information communication technology and biochemistry industry. (Trompenaars & Hampden-Turner, 1997)

#### *2.1.5.2.1.5 Conclusion of Corporate Culture Modes*

These different corporate culture modes are of course only ideal cultures and in most organisations, a combination of these corporate cultures is used to a various extent. One can also identify that corporate cultures is highly influenced by national culture i.e. certain corporate cultures is more common in certain countries or regions. As mentioned in the incubator section, size does also influence the corporate culture e.g. smaller companies tend to have a family or incubator culture whereas larger companies have a tendency to utilize the Eiffel tower or guided missile approach. Finally, one can argue that the key influencers of corporate culture are the founders of the company that sets the tone in the organisation according to their own values and beliefs (Trompenaars & Hampden-Turner, 1997). This is often the case in family businesses.

## 2.2 Family Businesses

During the last few decades there has been plenty research on the different aspects of family businesses but it has also been done for a lot of different reasons and from various standpoints. The question what a family business, or family firm, really is will be introduced and discussed in the following chapter.

### 2.2.1 Definition of Family Businesses

Researchers throughout the years have come up with many different definitions of what a family business exactly is. Traditionally, ownership was seen as the factor that differ a family firm from other small or medium sized companies (SMEs) (Storey, 2001). According to Davis (1983 in Harvey, 1999), a family business is an organisation which is influenced in its strategy and goals by members of a family with ownership and sometimes directly through management positions. Storey (2001) is on the same track when stating that what set a family business apart from others are the implication and closeness of the ownership in the operations.

Westhead, Cowling, Storey, and Howorth (2002) present four key issues that previous researchers frequently has used when defining family businesses. The first one is purely about ownership and whether or not more than 50 percent of the shares are owned by one family group. The second one defines a company as a family business when the management is from the same family. Another definition is a little less rational and dealing with the feeling of kinship and the perception that it is a family firm regardless of ownership structure and management. The last one requires a transition in ownership from the first generation of majority owners to a second or even later generation. In some cases researchers have used various combinations of these issues as their definition. (Westhead et al., 2002)

Depending on the definition chosen the research can differ significantly and a problem with prior research is that researchers have chosen among the definitions to find the one that supports their results (Storey, 2001; Gandemo, 2000). Nordqvist (2005) argues that most important is that the researchers are clear on what definition to use rather than to find the best definition. This is important because there are significant differences between different family firms as well as between family and non-family firms. The number of businesses classified as family firms vary extensively regarding what definition is selected (Westhead et al., 2002). Statistics Sweden (SCB) uses a very broad definition by calculating family businesses through simply subtracting listed firms and companies that are, or has been, publicly, foundation or foreign owned, or in other ways owned by several shareholders. In fact, the result is not necessarily family firms but businesses with one or a couple of owners (Gandemo, 2000).

In this thesis the authors has agreed upon one of the definitions provided by Westhead et al. (2002) where the majority of voting shares is owned by one family, the CEO/Managing Director/ Chairman of the board perceives it to be a family business, and at least one member in the management group comes from the family.

After defining what a family business is, the next chapter will explain what makes family businesses different from other businesses and further clarify why it is extra interesting to investigate family firms.

### 2.2.2 Characteristics of Family Businesses

The typical characteristics of a family business are that it is long term oriented, committed, characterized by stability with multifaceted goals and objectives (e.g. Nordqvist, 2005; Poutziouris, 2002). The contrast to this would be the publicly traded firm with diverse shareholder influence and the pressure to meet short term financial and operative goals.

Another attribute that makes family businesses different from other small companies is that the family adds an extra dimension due to the social and emotional relations within it (Fletcher, 2002). In fact, it often seems like the nature of business is directly contradictory to the nature of family (Ward, 1987). For example; business is supposed to be objective and the family emotional, or; in families everyone is accepted alike but in business the best ones are rewarded (Ward, 1987). These kinds of conflicts can cause major difficulties in family firms but there are also positive traits like loyalty, decisions made through consensus and overriding goals that the family and business share (Ward, 1987).

One thing is clear; the family firm cannot be understood without an understanding of the business family that controls it and the emotional factors influencing the decisions (Murray, 2002). This is also supported by Hall (2002) who describes the family business, and especially the strategy process within it, as multi-rational. She criticise earlier research for giving the impression that family firms are irrational with the meaning that they do not follow the calculative rationality trying to find the most efficient mean to reach a goal. She explains that the family values, goals and relations add an extra dimension of social rationality to the process. Strategic moves not explained by calculative rationality are not necessarily irrational but can follow a different kind of rationality. She concludes that strategy within a family business follows multiple rationalities and it can be better understood if the social and contextual dimensions within social rationality are taken into account. Murray (2002, p.76) calls this "the uneasy marriage of the emotional with the rational".

Another contributing factor to the false perception of irrationality is that the strategic process of family businesses has typically been described as informal with decisions made at "the kitchen table" with one or a few family members far from the formal strategic tools and planning methods earlier research has focused on (Nordqvist, 2005). Various examples has however been found of family considerations directly influencing company decisions such as dividing the company into as many parts as the number of heirs (Dyer, 1994 in Nordqvist, 2005) or placing the business near the family residence (Kahn & Henderson, 1992 in Nordqvist, 2005).

The added complexity that defines a family business is according to Johannisson (2002) also its success factor. He describes the tension between three, in some research directly contradicting, ideologies; Managerialism, Entrepreneurialism and the family as an ideology, Paternalism. His research of twenty four medium-sized Swedish family firms over fifteen years showed that the most successful firms were the ones that remained genuine family businesses and had not become more relying on external capital. Thus, successful family businesses accommodated all three ideologies simultaneously (Johannisson, 2002). It is an act of balance between the three ideologies, or sub-systems within the family business system, characterised by constant conflict and compromises (Murray, 2002) but managed right it can be the very thing that spurs growth (Johannisson, 2002). Other researchers has realized the significance of the interplay within the three subsystems depicted in "the three-circle model of the family firm" and the importance to separate the three systems from each other (e.g. Nordqvist 2005).

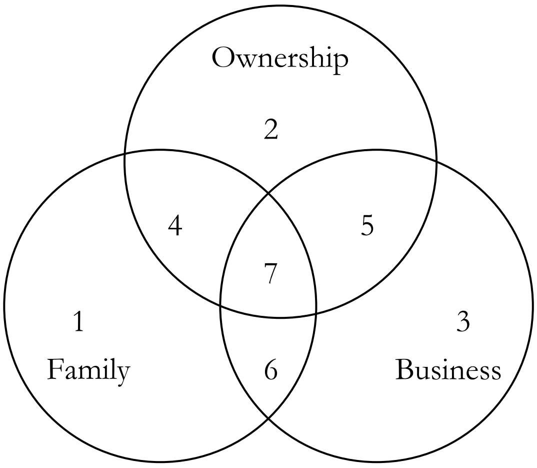


Figure 2-3 The three-circle model of the family firm. (Gersick et al. 1997 from Nordqvist 2005, p.47)

The numbered areas represent different levels of involvement from everyone in a family business. The uninvolved family member in sector one, the unrelated shareholder in sector two and the unrelated employee in sector three have the least complex roles while the most intricate role is played by the family member that is both actively involved in the business and a owner, thus in area seven (Nordqvist 2005).

Another positive aspect connected to the family business is that the family can provide "high ethical standards, positive commercial values, and a sense of responsibility which may contribute to the transfer of entrepreneurial skills from one generation to the next."(Poutziouris, 2002, p.113). Hitt et al. (2001) also emphasise the importance for family businesses to act ethically.

In opposition to the research calling family ownership the source of competitive advantage (e.g. Habberson & Williams, 1999 in Nordqvist, 2005) and the success factor (e.g. Johannison, 2002), contradicting studies have been made. Some criticism includes lack of professionalism, promoting family before merits (nepotism) and family arguments affecting the business (Poutziouris, 2002).

A recent study done by McKinsey and researchers from the London School of Economics (Dorgan, Dowdy & Rippin, 2006) compared the quality of key management practices and different performance metrics in over 700 mid-size manufacturing companies in France, Germany, the UK, and the US. It concluded that most successful were family-owned companies managed by an outside professional and not the eldest son. Possible reasons for this were discussed to be that those companies had "the best of both worlds". They could have had the family's long-term focus, less pressure for short term results and direct interest in the firm combined with a talented professional manager scrutinized by the family. However, family-owned businesses that selected the successor from all of the family members were not managed worse than other businesses so the lesson with the study is the importance of succession planning and to pick the best candidate for the job not necessarily the eldest son (Dorgan et al., 2006). Poutziouris (2002) agrees to the importance of successful succession planning and states that lack of it is a strong reason why most family businesses never reach second or third generation. The article also highlights an important aspect of the ownership or management structure; the need for diversification and influences from outside the family (Dorgan et al., 2006).

Sometimes the process of growth in a family firm is incompatible with maintaining family control and such conflicts between the family politics and the business politics can seriously hinder development of the firm (Poutziouris, 2002). Johannison (2002) states that continued development from a small start-up to a medium-sized family business needs sustained family involvement as well as continued entrepreneurship and professional management.

That there can be differences, both positive and negative, between family firms and non-family firms are now well confirmed but do these characteristics have a significant impact on the performance of the family firm? There has been plenty of research trying to show differences in performance between family firms and non-family firms but so far no conclusive evidence has been reached.

Gandemo found only small differences regarding profit margin, return on total capital and average cost of finance (Gandemo, 2000). A similar conclusion was drawn by Westhead and Cowling (2002) after a matched-paired sample of 73 family and 73 non-family unquoted companies from the UK. They failed in finding any statistically significant differences in any of the categories dealing with performance in gross sales revenue, employment, propensity to export and percentage of gross sales exported. After this they came to the conclusion that it is hard to "attribute a clear performance impact purely due to family ownership."(Westhead, et al. 2002. p.27)

However, significant dissimilarities were found when it comes to return on equity, solidity and tax (Gandemo, 2000). This is also supported by the findings of Poutziouris (2002) that states that smaller family firms are dependent on retained profits for survival and development.

These studies mainly included small family businesses but there is nothing that says that a family firm must be small. Of the 1000 largest listed companies in the world 79 was regarded as family firms with the definition that two or more family members owned more than 20% of the shares together and the second or later generation was actively involved (Ward, 2005). These companies were found substantially more profitable than their non-family counterparts. The return on invested capital was on average more than 30% higher and the average revenue was larger despite that they had less than half the assets. Special characteristics of these companies (one example is Swedish H&M) were that all of the family ownership was held by family operating managers (Ward, 2005).

As conclusion it can be said that it is easier to find evidence of differences in how business is performed than the successfulness of the different strategies. This can be explained by the lack of focus and numerous definitions provided in the family business area. Since every business is unique, without a clear definition of what a family business is there can be as many dissimilarities between different "family businesses" as between family firms and non-family firms (Nordqvist, 2005).

#### 2.2.2.1 Culture in Family businesses

Earlier family businesses have been described as special due to social and emotional relations (Fletcher, 2002) and highly influenced by the owning family (e.g. Johannisson, 2002; Nordqvist 2005; Poutziouris, 2002). Values, owner motivations and the dominant role of the founder are key cultural drivers (Denison, Lief & Ward, 2004; Trompenaars & Hampden-Turner, 1997)

Denison et al. (2004) used 'the Denison Organisational Culture Model' for investigating differences between family-owned firms and other companies and also connected performance measures to the results. The model measures four cultural traits: adaptability, mission, consistency, and involvement, which expresses and identifies the core of corporate culture. These are in turn divided into twelve indices and the results shows whether or not the organisation's culture has a positive impact on performance. Then family-owned firms were compared to non-family owned firms. The results showed consistent differences to the family firms' advantages. Some of the most significant factors that family-owned firms excelled at included; core values and agreement in the consistency trait, and; creating change and organisational learning within the adaptability trait of culture. The research also showed that family firms invest significantly more in personnel development than other firms. These findings indicated that family-owned businesses have a distinct culture that increases performance (Denison et al., 2004).

The reason for this result is probably the founder's values and entrepreneurial spirit that has established a culture that later has been continued and cultivated by succeeding generations. A long-term continuing culture, with distinct core values and performance enhancing behaviours but also favouring learning and flexibility, is hard to copy and can therefore be a company's competitive advantage (Denison et al., 2004).

### 2.2.3 Strategic Considerations within Family Businesses

After the definitions, special characteristics and culture of family firms the next step is to identify when and why these factors impact the operations. Some research found differences in performance and others did not. The corporate culture, leadership, goals and family influences are characteristics that most likely have an impact on strategic decisions such as for example whether or not to expand across national borders.

#### 2.2.3.1 Internationalisation of Family Firms

Small to medium sized family firms have been defined as careful regarding fast growth and growth aversion in the domestic market is exaggerated on the international arena. Lack of resources and cultural factors hinders them from expanding globally. The key thing for a firm, when considering international expansion, is to take its local advantages and transfer them to foreign markets (Fernández & Nieto, 2005) so the question is how a family firm with the characteristics discussed above deal with this.

Fernández and Nieto (2005) measured export activities of Spanish family firms and found a negative relationship between internationalisation and family ownership. Reasons for this were thought to be family firm's difficulty to access recourses and competences for creating competitive advantages internationally (Fernández & Nieto, 2005). Another factor can be that going international often forces the owners to give up some control (Welch & Luostarinen, 1999). One solution to this problem was a generational shift where the subsequent generation had more knowledge and better abilities, in addition to a hunger for making a strategic impact. Another factor that made family firms more prepared to go international was a partnership or strategic alliance where resources were taken in externally (Fernández & Nieto, 2005). This concurs with the Uppsala-model mentioned above when an international venture starts through someone with knowledge of the new market e.g. a sales agent (e.g. Johanson & Vahlne, 1999).

An important factor to have in mind is that not all family businesses are alike (Nordqvist, 2005) and some are clearly not at all growth averse considering that a large number of the worlds biggest companies can be defined as family corporations (Ward, 2005).

#### 2.2.3.2 Strategies in Family Businesses

As mentioned before, there has been little research dealing specifically with strategy issues within family businesses. This could be connected to the view of irrationality described earlier where the classical steps of strategic planning; analysis, choice and implementation, is not always applicable (Nordqvist, 2005). Ward (1987) state that it is the family that ultimately shapes the business strategy. Some researchers argue that there are only minor differences between family firms and others businesses when it comes to the strategy process while others regard family businesses as unique cases for strategic management (Nordqvist, 2005). Yet, others add that there are other factors such as size, age, financial performance and organisational structure that play an equally important role in strategy than simply the ownership structure (Gersick et al., 1997 in Nordqvist, 2005).

Ward (1987) described a formal strategic planning method for family businesses that was constituted of one business plan plus a strategic plan for the family. He treated the two plans as interdependent and argued that the family and the business are so closely linked that its goals and processes must be in harmony.

One description of what characterises a family firm in the strategy process is provided by Melin and Nordqvist (2000). They explain that it is the operative issues and not the strategic ones that many family firms prioritise. Strategy is developed incrementally and strategic opportunities are dealt with as they emerge (Melin & Nordqvist, 2000). This implies that there is no extensive strategic planning but the strategy is evolved over the course of time.

The discussion has been that since the strategic process is closely connected to the day-to-day operations and gives family members working as top managers a good knowledge of markets and products of strategic importance (Nordqvist, 2005). This knowledge and competences of family members are passed down though generations and through this, Habberson and Williams (1999 in Nordqvist, 2005) developed the concept of *familiness* which was one of family firms' competitive advantages. A lot of research so far seems to agree upon that family characteristic, values and interests influence the strategic process (Nordqvist, 2005, p.49).

Another aspect that set family businesses apart from non-family businesses is the strategic arena. In some small family businesses the strategy is discussed in an informal strategic arena mostly between family strategists (Nordqvist & Melin, 2002). This is a strong contrast to non-family corporations with professional managers or board members interacting mainly in formal meetings.

Schwass (2005) states that there exists no model for the perfect family business but what makes it successful is the ability to build on tradition over generations to adapt to both external and internal changes. He argues for an evolutionary growth strategy that is effective over the long term and is embedded in the family. This contributes to successful leadership in several generations due to that the leadership development starts early and mentoring is always available. Leadership in family firms also lasts longer and the new leader sustain and build upon earlier generations' achievements. Schwass (2005) introduces the concept of "wise growth" and a three dimensional wise growth strategy for the family business leader. First the successor should grow as an individual. Then she should grow in the business role and first after that is she ready to grow the business. The author noticed tendencies for successors to want to make their own contribution to the legacy. One example given was vertical integration were each generation added to the value chain (Schwass, 2005). This leads us on to the growth strategy mainly focused upon in this thesis; the acquisitions.

## 2.3 Acquisitions within a Family Business Context

Because of the long-term thinking, reluctance for bringing in outside capital, and need for stability in family firms, it has been argued that family firms would prefer organic growth strategies instead of the more risky, fast growth that acquisitions pose (Nordqvist, 2005). Sometimes the company faces a situation when the long term stability is threatened and organic growth is not enough. A family firm must then consider whether to take the company public, undergo a leveraged buyout, grow through acquisitions or be acquired by another company.

To be acquired can be a suitable exit strategy where the company, the family's legacy, continues in a different form. This is a defensive strategy. The offensive strategy, to grow through acquisition, can increase value, create a competitive advantage, and meet stakeholder demands.

The authors have only come across one study dealing directly with acquisitions within a family business context. Mickelsen and Worley (2003) made a case study of a Canadian family firm that was acquired by a Fortune 500 company. The suggestion was made that the acquisition process differed along three dimensions; structure, motivation and culture.

The results showed that the fact that it was a family firm indeed affected how the acquisition agreement was structured. It was important that family members remained in the company after it had been bought for a successful outcome. The buying corporation actually adjusted their policy to allow the informal communication channels within the family firm in order to keep the family management. It was also arranged that a small part of the previous owners' shares were paid out incrementally over time (Mickelsen & Worley, 2003).

The motives for the family to sell the business were, among others, to realise financial goals and increase harmony within the family. A characteristic of the family firm was to make decisions based on what was best for the family and this was it. The more successful the business would be, the bigger would the return for shareholders and the family be. To sell was seen as the best strategy to achieve this (Mickelsen & Worley, 2003).

The cultural aspects affected the merger in both positive and negative ways. The family firms' unique culture had a great pride of ownership and sensitivity to personal issues and such values had a positive impact on the buying corporation. The culture was "fun and inspiring" and the company was seen as one big family. However, this also created problems when family relations and informal networks, with decisions affected by the family's best interest, conflicted with the formal business system. The chain of command was not as clear cut in the family firm creating confusion mainly in the pre-acquisition phase (Mickelsen & Worley, 2003).

Mickelsen and Worley (2003) focused on the post-acquisition phase and the integration process in it. Eight success factors regarding the integration of a family firm was found.

1. Develop a clear vision and goals for the integration.

2. Address integration issues during due diligence.

3. Recognize and respect cultures with a goal of blending them.

4. Retain key people from the acquired organisation.

5. Connect with members of the acquired company after the acquisition.

6. Utilize planning and decision-making tools.

7. Dedicate a project team and a project manager to plan the integration.

8. Hire a consultant to assist with the process

(Mickelsen & Worley, 2003, p.263)

Compared to the success factors of the different acquisition phases described earlier, there are both similarities and differences. The largest difference is the focus on culture which is emphasised through point 3 in Mickelsen and Worley's (2003) family business success factor list and not mentioned in the general success factors by Hitt et. al. (2001).

After this review of the theories in the fields of Acquisitions and Family business, a gap was discovered. The authors are unable to find specific research dealing with acquisition strategy in Swedish family firms or almost any research dealing with acquisitions in a family business context. It would be very interesting to see if family businesses have different motives for acquisitions and if their approach to this strategic action differs with regard to acquisition strategy and culture. In that case, what characteristics of a family business drive this difference? Our research questions aim towards filling this gap.

# 3 Research Questions

With regards to our purpose, in the light of the frame of reference, this thesis will strive to answer:

- How two different family firms structure and utilize their acquisition strategy?
  - What strategic motives initiate and drive the acquisition process?
  - How is the family influencing the motives for and process of acquisitions?
- To what extent does culture affect the acquisition strategy?
  - Is the international organisation different from the national organisation with respect to growth strategies?

# 4 Method

*This section will discuss how this study will be conducted and what actions will be taken to assure the best possible results. First, a differentiation between quantitative and qualitative measures will be presented. This will be followed with a short perspectives section. Then different modes of conducting the study will be presented. Finally, a data management section will conclude the chapter.*

## 4.1 Quantitative versus Qualitative

The two main fields in methodology is qualitative and quantitative research. These two can broadly be separated by arguing that qualitative research focus on processes and quantitative research focus on relationships between variables (Denzin & Lincoln, 1994). When trying to find further differences, one can argue that qualitative research tries to provide meaning to different social experiences including values in the inquiry. This can be contrasted against quantitative research that tries to measure and analyze assuming a value-free context. Qualitative research has been criticized for being personal biased and reflects opinions of the author. The critique originates from the 'hard' sciences, e.g. physics and chemistry, which argues for the importance of measurability and independence (Denzin & Lincoln, 1994).

Since the aim of this thesis is towards increasing the understanding for acquisition strategies and interpreting family businesses views on acquisitions, a qualitative research approach have been chosen. This, since the construction of strategy and the planning is processes and also because personal view and values plays a vital role in this research.

## 4.2 Perspective

The subject of acquisitions can be studied from various different perspectives. One can take the financial perspective and look at the situation for shareholders of the different companies. Another perspective is to investigate the financial accounting perspective, focusing on how to structure the legal aspect of the acquisition. The authors have chosen not to focus on these angles but instead on the managerial aspects of the acquisition.

## 4.3 Case Study

The social science field includes a variety of ways to conduct research. These range from experiments, surveys, histories, case studies and analysis of economical archives. When choosing what type of study to conduct, one needs to focus on three main conditions; the type of research question, what control is needed for behavioural events and also if it is a historical or contemporary phenomenon that has been chosen to study.

When it comes to the research question, one can divide the different types into two groups, first the group that answers the questions; *who, what, where, how many* and *how much*. Examples of how these question words is used can be; who takes the decisions if X happens or how many thinks that this is a good decision. This group includes the survey and archival analysis studies. The second group answers the questions *how* and *why*, e.g. how does X plan their purchases or why do X sell to only two customers. The studies that are included in this group are experiment, history and case studies (Yin, 1994). This thesis can be classified into the second group as the research questions are of an explanatory nature which can be associated with *how* and *why* questions.

Yin (1994) presents the control over behavioural events as a second classification. If there is a need for control over behavioural events or if it is possible to repeat the event, the question can be answered yes and an experiment method should be used. If the question is answered with a negative answer, one needs to further classify the types. This is done by asking whether the focus is on a historical or contemporary event. If the focus is on historical events, one can argue for the suitability of a history study approach. If the focus is on a contemporary event, a case study would be the most suitable.

This argumentation gives reason for arguing that this thesis should use a case study approach since it includes a process including several events and as such can not be repeated. Further, it focuses on the contemporary strategy of the companies and not their historical strategies.

Stake (1994) differs between three various kinds of case studies. First, one can conduct an intrinsic case study. This study is conducted in order to get a better understanding of the case. The second way is to conduct an instrumental study. In this situation, the case is only of supportive importance and the main interest is on something else upon which the case can provide knowledge. The third and final way of conducting a case study is a collective case study. Here, the researcher strives towards understanding a phenomenon and uses several independent instrumental case study to get an insight in the studied area (Stake, 1994). The latter way should be used within this thesis.

### 4.3.1 Case Design

Yin (1992) argues the importance of defining the case. The authors have chosen to define the case as the acquisition strategy in the company. This means that it is the acquisition strategy in the company that is the case and not the actual company. Stake (1994) argues that one needs to define the case with something concrete as the case being a department, person or company but since the approach of this thesis is to focus only on the acquisition strategy and not a specific entity, the acquisition strategy has been chosen. When the case has been defined, one needs to choose whether to use a single-case design or a multiple-case design (Yin, 1992). The advantage with a multiple-case design is that it is more robust than a single-case design although it might consume much time and resources. This thesis has chosen to take on a multiple-case design due to the increased robustness. Since this thesis strives towards giving a greater knowledge of the acquisition strategy phenomenon, there is reason to argue for the suitability of a collective case study and thus use more than one case. Further, Yin (1992) argues for the importance of not sampling the cases but choosing them according to replication logic. There are two different ways to reason when choosing the cases for the study. First, one can use a literal replication approach i.e. multiple cases that one predicts to give similar results. Second, a theoretical replication approach can be utilized. This means that one chooses cases with different outcomes but where the outcome can be explained using literature. In this thesis, the second approach will be used i.e. theoretical replication.

The cases that will be used in the thesis will concern the strategy in two different Swedish family businesses. Firstly, Bröderna Brandt Bil AB (Bröderna Brandt) which is a local car dealership from the western part of Sweden that has been around since 1929 and is currently owned and managed by the third generation (Arrestad, Brandt, Lysberg & Olsson, 2004). Secondly, ROL AB which is a global store fixture supplier founded 1985 with its head office in Jönköping (www.rolgroup.com, 2006).

The authors have in prior studies learned that these companies have several common traits that can be important for the investigation. Both companies have had a positive growth during the last decade. They use acquisitions as a tool for growing and as such they are highly relevant to this study. Further on, the companies has a similar size i.e. 400-500 employees. A company of this size has reached a level where one can assume that they have an outspoken strategy which is important for the report. The authors have chosen to limit the size in order to ease the access to actual decision makers and also because the number of people involved in strategic decision making is lower than in a larger company. This thesis project has limited time and resources hence there is a need to limit the number of interviews. Both companies are owned and to a large extent managed by a family. This presents an interesting sub-area to study since there is limited research within the area and since family businesses is commonly known to avoid risks and to be careful when it comes to growth. Finally, one can identify that Bröderna Brandt operates in a national environment whereas ROL AB operates in an international environment. This presents a difference that could be interesting to consider when analysing the results of the research.

### 4.3.2 Case-Case Analysis

The single case is by far the most common and traditional mode of qualitative data. The method of case-case analysis is however gaining ground where studies focus on sets of cases within different settings. The objective with this approach is to increase the external validity and in some cases even increase the generalizability. In this paper the authors will look at the two companies in this way, replicating the case in each to allow for identification of common ground between the two separate "individuals". (Huberman and Miles, 1994)

However, the authors recognize the dangers of simplifying such a complex method. This approach greatly increases the chance of faulty and/or artificial conclusions. Aggregating data and analyzing it with a high level of inference may result in the observation not holding true in any of the separate cases and only in its combined and generalized form. (Huberman and Miles, 1994)

Stake (1994) supports the ideas of generalization and argues that although a single case study can not result in generalization, it can be seen as a step on the way towards generalization. Further, he argues the danger of over-emphasis on generalization and thereby risk losing focus and understanding of the case itself. (Stake, 1994)

## 4.4 Data Management

There are many dangers with qualitative research; self-delusion and unreliable or invalid conclusions are all pit falls that a researcher needs protection against. The authors have chosen to follow the structure of Huberman and Miles (1994) when it comes to their data management. It gives systematic and coherent processes for the collection, storage and processing of data, aiming at creating data that is of high quality, easily accessible and well documented.

The data management and analysis have three main sub-processes occurring throughout the entire collection from the initial design to the completion of the final product, data reduction, data display and conclusion drawing/verification all with the purpose of creating validity. (Huberman and Miles, 1994)

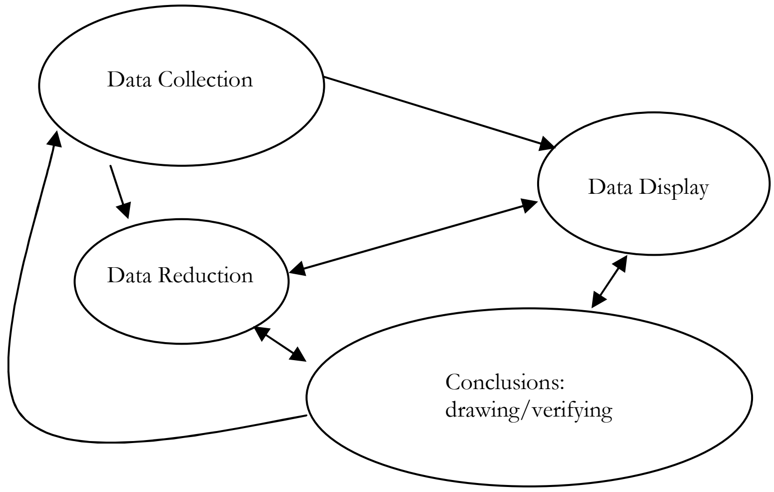


Figure 4-1 The interaction between the components of data analysis (Huberman and Miles, 1994, p. 429)

Data reduction narrows the potentially overwhelming amount of data. With an anticipatory scope the authors choose a conceptual framework, research questions and cases. And once the interviews are conducted finding themes, summaries and clustering are further instances of deriving the usable data. The display assembles the information to allow for the conclusion drawing. The authors need the reduced data to be able to grasp its meaning, and with structured summaries they will be able to just that. Drawing meaning from the displayed data in turn allow for the authors to draw conclusions and verification. (Huberman and Miles, 1994)

### 4.4.1 Data Collection

Yin (1994) argues that the main source of information for a case study is interviews. This since most cases deal with human affairs and as such should be conveyed to an interviewers as respondents may provide information that might be hard to communicate in a non-personal context. Andersson (1985) discuss that the interviewer has two main choices when structuring an interview, an oral interview or a written interview. The oral interview presents some advantages over the written interview. First, the oral interview allows the interviewer to reformulate the question when needed and also to explain the question deeper. A second advantage is that a personal connection is easier established and it allows for the interview to develop into a dialogue rather than a monologue. On the other hand, written interviews are cheap and easy to distribute to a larger audience. Disadvantages with written interview can be that there is a risk that some of the respondents will choose not to answer the interview.

Further, Andersson (1985) presents three trade-offs when it comes to structuring the interview. First, there is a trade-off between open-ended, e.g. 'explain…?', and closed questions, e.g. 'what colour is your car? a) red b) blue c) green'. The advantage with using open-ended questions is that the respondents are not limited in their answers. The advantage with closed questions is that it save time as they are easier to interpret and has an increased comparability. Yin (1994) argues for the use of open-ended questions in case studies when the case includes values and opinions. The interview type is also valuable when it is appreciated that the respondent suggests further knowledge e.g. tips of further sources. The second trade-off presented by Andersson (1985) is if the interview should cover a broad area on the surface or if it should dig deep in to a narrow area. This can be a connection to the prior trade-off where the closed questions are used by the surface study and the open-ended questions are used by the deeper study. The final trade-off presented is if the interview should be structured or not. This can also be connected to the first trade-off since a highly structured interview often utilizes closed questions and an unstructured interview usually use areas of interest instead of pre-set questions. Some drawbacks with interviews presented by Yin (1994) are bias problems, problems to remember and inability to convey information accurately.

Supported by this research and the purpose of this thesis the authors have decided to do two thorough oral interviews with strategists at each company. As aid to this process and to ensure to get valid and reliable results, a semi-structured interview guide with closed and open ended questions will be used.

There will be two interviews conducted at Bröderna Brandt. The first one will be with the CEO Sten Brandt. He is also the co-owner of the group company together with his brother Björn Brandt. As one of the two owners, Mr. Brandt is a good representative for the family influencing the company. He is also actively managing the company as the CEO in addition to being an owner. This interview will be conducted according to the interview guide presented in appendix 1 (English) and 2 (Swedish). The second interview will be with Karl-Anders Torbrant which is the CEO of one of the subsidiaries, Brandt Fordon. Brandt Fordon is responsible for the distribution of Ford, Land rover and Mazda within the group. Mr. Torbrant is also co-owner in Brandt Fordon with an ownership of one third and the other two thirds is owned by the parent company Bröderna Brandt. Mr. Torbrant has been chosen since he is the only owner outside of the family. This interview will be conducted according to the interview guide presented in appendix 3 (English) and 4 (Swedish). Both interviews will be approximately one hour long. No recorder will be used in order to encourage openness and to provide a relaxed atmosphere. Instead, the interviewers will take notes. The authors do not believe that this will be a problem since the interviews are limited in length.

Two interviews are to be conducted at ROL AB. The first interview will be with the CEO of the group company, Kaj Hjelm. Mr. Hjelm is the founder of the company to the extent that he bought a less successful company and turned it into what it is today. The interview guide presented in Appendix 1 (English) and 2 (Swedish) will also be used in this interview. To complement this interview and to present a more comprehensive view, a second interview will be conducted at ROL AB. Since all ownership is within the family, except for some international subsidiaries, we decided to interview Jan-Åke Stegå. He is the CFO (Chief Financial Officer) of the company and a member of the executive team. The same interview guide (Appendix 1&2) will be used for this interview although an emphasis will be put on how the family influence leadership and the succession from one generation to the next. The interview with Kaj Hjelm will be conducted via telephone due to Mr. Hjelm's tight schedule. The second interview will be conducted at ROL AB's facilities in Jönköping. During this interview, the authors will use a tape recorder since one of the group members will be hindered from attending this session.

In addition to the main interviews, with strategists at the companies, complementary interviews will be performed with specialists on the different research areas. This is done because the time limit on this thesis would not allow for as many interviews at different companies as needed for making broad generalisations. A solution for this is to make two deep interviews at each company to investigate the specific situations and then to complement these findings with the input from researchers that are able to present general thoughts within the topics. The first interview is to be conducted with Ph.D. Mattias Nordqvist, researcher within strategy and family business. The second interview is with

Ph.D. Leona Achtenhagen, associate professor within the areas of M&A and business growth. These interviews will be conducted in an open setting where the thesis subject is presented followed by a mutual discussion concerning the subject in relation to each scholar's special areas.

In addition, the authors will attend the CeFEO (Center for Family Enterprise and Ownership) conference about future challenges for family businesses which is to be held on the 6th of December 2006. From this conference the authors hope to draw experiences and views from additional family business owners.

### 4.4.2 Data Reduction

The raw interview material has been scrutinised by the authors and refined to only include information aligned with our purpose, cutting away the mass amounts of information otherwise created in a casual semi-structured setting.

The authors have reduced the data in several steps. The research questions give direction which facilitates the condensation of the dataset by defining our interest in the strategic aspects of acquisitions made by medium sized family owned businesses. This does not allow us to divulge into other fields such as the post-acquisition behaviours which, although important, is not the focus of our study. Thus, data encompassing areas not brought up in the research questions will not be presented in the empirical research section.

Furthermore, the frame of reference chapter builds on the research questions and streamlining the scope even further, portraying the authors interest in specific areas explainable by the theory presented.

### 4.4.3 Data Display

The authors have dealt with the issues of data display by presenting the distilled raw interview data in a focused text closely linked to the structure of the theoretical framework. By managing the empirical findings in this way the authors create a logical setup for the following analysis and discussion.

### 4.4.4 Conclusions: Drawing/Verifying

Grouped in one category the verifications and conclusions compliment each other. The trustworthiness of the data is crucial to the thesis. The term is a general one and refers to the reliability, internal validity and external validity (Rudestam & Newton, 2001). Further, the drawing of conclusions involves the authors interpreting and drawing meaning from the data. Having gone through the reduction and display it is in fact more manageable but still full of pitfalls. Without verifying the data, end results would not add any knowledge, only an analysis skewed with the biases of the authors and interviewees. (Huberman and Miles, 1994)

#### 4.4.4.1 Reliability

Replication of a study is always a matter concern for its authors. The authors of this thesis will achieve this by clearly describing our case, which focuses not on a singular case but rather the more general approach these companies take when involved in an acquisition. Further we will present our interview material and analyse it according to the data display chapter above. (Rudestam & Newton, 2001)

#### 4.4.4.2 Internal validity

According to Rudestam and Newton (2001), substantiation of the data in this view has a structural solution. The authors are limited by time in this instance since it effectively excludes any prolonged engagements which could identify distortions. The authors will however employ technologies such as taping interviews and/or actively taking notes to achieve a persistent participation. Furthermore, any opportunity to verify our interviewees' information with other records will be zealously pursued.

#### 4.4.4.3 External validity

Readers of this thesis should be mindful of the generalizable properties of any qualitative study. The focus on a small number of events in specific contexts intuitively does not produce certain general results. It is therefore important for the authors to clearly state the contexts within which our cases occur. This will allow for easier transferability of any findings throughout the study. (Rudestam & Newton, 2001)

## 4.5 Criticism of Method

The method used is, according to the authors, the best one for the purpose of this thesis. However, in order to make valid and reliable results there are some things that must be criticised and those will be presented here.

As representatives for the Swedish family business fauna the authors chose only two companies. Two companies can provide a step towards a general picture but the risk for bias is significant. The very best approach had been a series of interviews over time with people at different levels in many Swedish family firms in different industries. Interviews also with individuals within acquired firms, at the acquisition moment and some time after. The best results regarding a firm's acquisition strategy would require investigation during different acquisition processes which then are compared and linked to respective motives.

Another source of bias can be that some of the authors have been in close contact with these companies before and can thus have preconceptions regarding them. Mr. Kull has had ROL AB as a host company in previous studies and Mr. Brandt has family ties to Bröderna Brandt where he also has been working.

The interviews were conducted with managers in high positions whose interests naturally are to put their company in a good light. In addition, answers regarding culture can differ from asking someone at the top layer of the organisation and someone at the bottom. Perhaps it would have been fruitful to have a set of interviews with employees at different positions in the organisations to get to the depth about culture. However, culture is not the main subject of the investigation even though it is interesting in this context.

# 5 Empirical Research

*To explore the strategists' view on acquisitions and the strategic issues involved a number of interviews were conducted at two different companies. Each section will start with a brief introduction of the companies to provide the background of the results. Following, the results from the interviews are summarized and grouped after topic. Summing up the empirical research, the general views on family business and acquisitions communicated by scholars are presented.*

## 5.1 Bröderna Brandt Bil AB

Bröderna Brandt is a company that provides its customers with automobiles, trucks, buses and complementary products and services. It was founded as early as 1929 by Mr. Stanley Brandt (www.brandtbil.se, 2006a). It started as a dealership selling Volvo cars and trucks but has now expanded to provide Volvo, Renault, Ford, Mazda and Land Rover brands. Complementary products and services provided are petroleum, car repair shops, spare parts and other products associated with car ownership. It also provides finance and car insurance through Volvo and Ford's finance and insurance companies (www.brandtbil.se, 2006b). Bröderna Brandt's geographical area is on the northern part of Sweden's west coast. The ocean is the natural border in west and the lake Vänern is the limit in east and in between are 16 sites on 12 locations with Trollhättan in south and Säffle the northest location (Arrestad, Brandt, Lysberg & Olsson, 2004).

Bröderna Brandt consists of three subsidiaries; Bröderna Brandt Personbilar AB, Brandt Fordon AB and Bröderna Brandt Lastvagnar AB. The divisions are divided after operations where the latter deal with trucks and buses and the two first ones with Volvo, Renault, and Ford, Mazda, Land Rover respectively (Arrestad et al., 2004).

It is today run by the third generation Brandt; Mr. Sten Brandt and his brother Mr. Björn Brandt. They took over the business after their father in 1984 and have since then lead a growth from SEK140-150 million to present day approximately SEK1.7billion (Personal communication, Sten Brandt, 2006-11-06). The brothers are majority owners, board members and managing directors. The only external part owner is Mr. Karl-Anders Torbrant who owns a third of Brandt Fordon AB which he also represents as CEO (Personal communication, Karl-Anders Torbrant, 2006-11-06).

Bröderna Brandt's mission statement is to offer a range of products and services so the customers' total car need is fulfilled. Its products should be sold with such quality that the customers' needs are fulfilled and their expectations preferably exceeded. Bröderna Brandt aim to be a long term business partner which demands a good economic stability. (www.brandtbil.se, 2006a)

### 5.1.1 Acquisitions

Bröderna Brandt has grown primarily through acquisitions through the last decades. The first important acquisition took place during 1979 when the company bought Lennart Kristensson AB in Vänersborg. This acquisition gave access to the Vänersborg-Trollhättan market. The next acquisition was delayed until 1995-96 when Bröderna Brandt chose to acquire Vexia, a group with dealerships in the Åmal-Säffle area. Ford's acquisition of Volvo cars opened up for the possibility to have Ford dealers within a Volvo group. As a result the owner, Alvar Larsson, of three Ford dealerships in Vänersborg, Uddevalla and Tanum contacted Bröderna Brandt when he was interested in selling the business. This deal was finalised in August 2000 when Bröderna Brandt bought the business and founded the company Brandt Fordon. This was followed by the acquisition of a fourth Ford dealership in Bengtsfors that was finalized in December 2000. The most recent acquisition occurred in August 2006 when Bröderna Brandt acquired a dealership, primarily focused on used cars, in Enköping. (Personal communication, Sten Brandt, 2006-11-06)

#### 5.1.1.1 Acquisition Strategy

Mr. Brandt sees acquisition as the easiest way of growing in this business. It is almost the only possible way of growing in this business since competition is very tense and tough. Competition has been the major reason to why these acquisitions have come about, in one way or another. It is important to grow and reach a sizeable volume in order to become an important customer for the supplier, Volvo. (Personal communication, Sten Brandt, 2006-11-06)

Another motive for the growth and acquisition has been to achieve economies of scale and synergy effects. In the Vänersborg deal, there was a need to grow geographically in order to increase volume and hence increase the bargaining power against suppliers whereas the main motive in the Vexia acquisition was to keep away competition, i.e. if we do not buy someone else will and compete with us. An additional contributor to this deal was encouragement from Volvo. Volvo wanted a strong owner for the distribution in Dalsland. (Personal communication, Sten Brandt, 2006-11-06)

In the Ford acquisition, Bröderna Brandt hesitated some since they saw limited benefits with the deal and they saw difficulties with how to organize the leadership of the company. The hesitation was overcome with some more analysis and possible synergy effects were identified and they also found a suitable candidate to govern Brandt Fordon. Although these motives differ, they all have in common that they add to the growth and battle competition. (Personal communication, Sten Brandt, 2006-11-06)

Very different from this was the acquisition of the dealership in Enköping. This dealership has no geographic connection and does not contribute vastly to revenue. The motive for this deal can be found in logistic and inventory management reasons. Due to much car production on the west coast, an over-supply of used cars exists on the west coast. Therefore, it is easy to get a too large inventory of used cars. As a result, Bröderna Brandt acquired the dealership in Enköping in order to have an additional market where they could sell used cars as well as reduce excess inventory. (Personal communication, Sten Brandt, 2006-11-06)

The acquisition process is initiated by an opportunity to buy a company. Bröderna Brandt has never been in the situation where they first saw the need and then started to search for a suitable take-over target. When the opportunity is presented, they start a process to find out if there is a need to acquire the target company. If an initial need is identified, they follow up this initial brief analysis with a more in-depth analysis of the company to get a comprehensive picture of the financials and the organisational structure. This analysis also aims toward discovering synergies. With support of the analysis result, Bröderna Brandt takes the decision whether to go ahead with the acquisition or not. (Personal communication, Sten Brandt, 2006-11-06)

#### 5.1.1.2 Integration Planning

How the integration process is structured depends on the motive for the acquisition and also on the corporate culture in the target company. The deepest integration is done in

Volvo dealerships since there are much cultural similarities between Volvo dealerships and Bröderna Brandt. (Personal communication, Sten Brandt, 2006-11-06)

An example of where the cultures were similar is in the Vänersborg deal, both cultures were based on the Volvo dealership and the small-scale, close-to-customer approach. In this case, the integration process is quite easy with an emphasis on strong leadership and re-branding, e.g. change of signs and letter heads. (Personal communication, Sten Brandt, 2006-11-06)

The Vexia deal is also an example of when Volvo dealerships are to be incorporated in the organisation. The cultures are also now based on the Volvo brand but in this case the company is owned by a large, publicly listed company. This means that the culture is more hierarchical and employees have an owner-alienated attitude. Therefore, this integration demanded more work and even stronger leadership where the owner tried to be present as much as possible in order to establish trust. (Personal communication, Sten Brandt, 2006-11-06)

*"The Vexia deal was a lot of work because of the different culture, but we had to buy it to keep the competition at bay"*

(Personal communication, Sten Brandt, 2006-11-06)

When it comes to the acquisition of the Ford dealers that later would become Brandt Fordon, there is a difference in culture since it is founded upon the Ford brand. As a result Bröderna Brandt chose not to integrate the culture to the same extent. The only integration put in place was the common back-office, i.e. Brandt Fordon utilizes the group-wide back-office for business solutions, human resources etc, and a new managing director for the company. In the long run though, Brandt Fordons culture is approaching the general Bröderna Brandt culture. The integration of Ford dealers into the Volvo culture have been tried earlier when smaller acquired Ford dealers in Dalsland was moved into a Bröderna Brandt dealership due to facilitative reasons. This was not successful and there were major culture clashes due to different values and beliefs, resulting in an organisation that was difficult to lead and govern (Personal communication, Karl- Anders Torbrant, 2006-11-06).

The integration, no matter to what extent, is led personally by the owners; Sten and Björn Brandt, until a local manager can be assigned to continue the transformation. The last acquisition, the used cars dealership in Enköping, is different since it does not aim towards giving increased revenue or market share but due to inventory management reasons. This different motive and also a totally different organisation and culture resulted in no integration at all. The old manager is still managing the company and the brand and organisation structure is unchanged. The only change that has occurred is that the dealer is using the business system as Bröderna Brandt in order to ease monitoring of the financial situation (Personal communication, Sten Brandt, 2006-11-06). Although it is possible to change culture both Mr. Brandt and Mr. Torbrant says that culture can be very difficult and costly to change (Personal communication, Sten Brandt; Karl-Anders Torbrant, 2006-11-06).

#### 5.1.1.3 Successful Acquisition

What a successful acquisition is can be very individual and vary vastly from person to person. Mr. Brandt says that a successful acquisition is an acquisition that adds synergies whereas an unsuccessful acquisition is when the acquisition solely results in additional work. Further, Mr Brandt said that most acquisitions is successful in the long run and for

Brandt this can be seen in the Vexia deal where the acquisition demanded a lot of work in the beginning and as such was unsuccessful in the short run although it proved successful in the long run. (Personal communication, Sten Brandt, 2006-11-06)

### 5.1.2 Family Business

It was clear that Mr. Brandt perceives his company to be a family business. His motivations for this were that it is family owned and the owners are involved in the daily operations with active leadership (Personal communication, Sten Brandt, 2006-11-06). Mr. Torbrant agreed that Bröderna Brandt is a family firm and spoke also about the closeness to the employees. He considered the owners' closeness to the employees and active involvement in the operations as an important factor and a way to communicate the family business culture (Personal communication, Karl-Anders Torbrant, 2006-11-06).

Mr. Brandt mentioned *"the family business way of doing things"*. He explained that it was about how to organize and lead the employees. The organisation should be flat and close to the customers to make it easy accessible with local meetings. The customer should, through the family business culture, feel at home and close to the firm. He believed that you create the culture by managers influencing the employees' attitudes and that culture is a very important factor. In addition, he expressed that you should have respect for culture and that an existing culture is difficult, and takes a long time, to change (Personal communication, Sten Brandt, 2006-11-06).

*"The daily management is the core in a family business"*

(Personal communication, Sten Brandt, 2006-11-06)

One situation where the culture is communicated is through the monthly formal meetings between the owners and all the local managers where different operational questions are discussed in detail. However, the more *"interesting questions"* has probably, by that time, already been discussed in informal settings, such as dinners or in the pub, by the owners (Personal communication, Karl-Anders Torbrant, 2006-11-06).

In order to classify Bröderna Brandt in the modes of corporate culture model, both interview subjects were asked to grade the organisation with regards to hierarchy and task orientation. Mr Brandt described the organisation as decentralised with responsible site managers with decision power on every location. On the scale where 1 is total hierarchy he gave it an 8 or 9 (Personal communication, Sten Brandt, 2006-11-06). Mr Torbrant agreed by giving the company an 8 (Personal communication, Karl-Anders Torbrant, 2006-11-06). The task orientation grade was a little harder to set since it differed among positions within the company. Mr. Brandt gave an example of a manager with very little technical knowledge but very good personal skills as an example of a position where 'orientation to person' was the most important attribute. This was a number 2 if 'orientation to person' was 1 and 'orientation to task' was 10. However, for positions like, for example, mechanics the technical know-how was more important and thus should be graded more towards 'task orientation' (Personal communication, Sten Brandt, 2006-11-06). Mr. Torbrant set a more task oriented score with a number 5, hence 50-50 on task and person (Personal communication, Karl-Anders Torbrant, 2006-11-06).

Mr. Brandt had an attitude of long term thinking and commitment to his business and this became evident when he spoke about both acquisitions and risk taking. He explained that he probably was risk averse in many situations since it is his own money he is dealing with.

However, in some situations he could accept risks in return for long term gains that perhaps other companies, striving for short term financial results to please shareholders, would not (Personal communication, Sten Brandt, 2006-11-06). Mr. Torbrant, to an extent, also had this approach and explained that when he became the CEO of Brandt Fordon he wanted to be a part owner since it was an incentive for him to commit to the business. Mr. Torbrant has earlier been involved in the textile industry where the business relied on investors and funding the operations with stock. It was a fast moving business with a lot of risk taking and sometimes, when dealing with Eastern Europe countries, extremely high risk. He explained the textile industry as *"throwing in the hockey puck on chance in the attack zone"* in opposition to Bröderna Brandt that exercises *"disciplinary defence"* (Personal communication, Karl-Anders Torbrant, 2006-11-06). Since he, as well as Mr. Brandt, is dealing with his own money he is more risk averse. However, he is the least conservative and risk averse of the three owners (Personal communication, Karl-Anders Torbrant, 2006-11-06).

## 5.2 ROL AB

ROL is a full service provider of shop fittings, producing shop interiors to customers all over the world. It was founded in 1985 by Mr. Kaj Hjelm who has taken it from a small company in Sweden to an international corporation with over 500 employees and a turnover of approximately SEK 850 million. With a value statement pledging innovation, excellence, entrepreneurship and a strict environmental policy ROL has staked their claim in the global market. (Personal communication, Kaj Hjelm, 2006-11-09)

Initially, the company was a product supplier but by vertically integrating suppliers and service companies Mr Hjelm converted ROL into a complete store fitting and furniture company with design, manufacturing, shipping, sales and installation functions wholly integrated. Today, ROL has eight manufacturing operations mainly in Europe, but also in Asia and South America. Respectively, the 13 sales operations and 22 service partners are spread out to cover all major continents allowing for access to all key markets. (www.rolgroup.com, 2006)

The corporate structure of ROL is built upon the parent company ROL AB holding all shares in its subsidiaries including major parts like ROL Ergonomic, ROL TreeFurn and ROL International, the latter which in turn owns the different operations across the world. Ownership of ROL is contained completely within the Hjelm family. The corporate governance is also dominated by the family with Mr. Hjelm as the chairman and his three children as members of the board. The management of ROL has also been on Mr. Hjelm's table. Recently, ROL went into its second family generation with the son Johan Hjelm assuming the position of president for ROL International AB. (www.ad.se, 2006)

### 5.2.1 Acquisitions

Right from the start Mr. Hjelm had a vision of what he wanted to achieve with ROL, and to realize this he had to have more control over his suppliers. He felt they where outmoded and lacked the initiative to change and survive in future markets.

*"A lot of the suppliers we were working with could not see the future. I bought them and invested a lot to get them to the level I wanted"*

(Personal communication, Kaj Hjelm, 2006-11-09)

By vertically integrating these companies and updating them, many times investing more than he paid for them, Mr. Hjelm built the foundation of what were to become the ROL of today (Personal communication, Kaj Hjelm, 2006-11-09).

In these early days one big customer dominated ROL's turnover, once this customer moved on, it became apparent for Mr. Hjelm that his company could not rely on one contract to survive. Not only did this force a change in the company's strategy but it also created a need for diversification and through an acquisition ROL added ergonomic products to its range. (Personal communication, Jan-Åke Stegå, 2006-11-24)

In the 1990s ROL was earning a lot of money which allowed them to make acquisitions, and with the desire to enter the British market ROL acquired an already established company named Gibson-Lea. The reasons for this were that ROL's own subsidiary was too slow and Gibson-Lea presented complementary operations to ROL. The UK was also seen as the platform for the large US markets. The company, which got renamed to ROL UK, was outdated comparing to ROL standards and soon showed numbers in the red. Acting to save his investment Mr. Hjelm replaced the management and started rationalising, taking the almost 300 employee manufacturing company down to a fraction of its size sourcing many of its products formerly produced in-house from other ROL companies (Personal communication, Kaj Hjelm, 2006-11-09).

Apart from the entry into the British market ROL's motives for going into a new country are mainly governed by the opportunities to new international contracts from existing customers. Many of ROL's multinational customers perceive this as important, and even though governing all the subsidiaries require a lot of resources it has become a part of the company strategy. (Personal communication, Jan-Åke Stegå, 2006-11-24)

#### 5.2.1.1 Acquisition Strategy

Considering the nature of acquisitions the practice of buying other companies saw its peak during the years when ROL had its highest margins almost making 20% on the bottom line. It was a way of quickly building the company up to capacity. With an entrepreneur at the helm that constantly wants to start new projects it is something that has benefited the company in its growing phase, but might not suit a maturing company. (Personal communication, Kaj Hjelm, 2006-11-09; Jan-Åke Stegå, 2006-11-24)

Acquisitions has not been the main form of growth for ROL, although it has played an integral role in forming the company. As in the cases of vertical integration which allowed ROL to wholly integrate and thus control all aspects of the production or when adding ROL Ergonomic to differentiate and thus spreading the risk. (Personal communication, Jan-Åke Stegå, 2006-11-24)

As described above internationalisation has been another reason for acquisitions. Dealing with multinational corporations as customers almost demand a global span when it comes to production, sales and service organisations. This not only enables cost reduction due to lowered costs in some countries but also simplify logistics when doing a global rollout. ROL's customers are very aware of decreasing costs and therefore demand the same, or else they will take their business elsewhere. (Personal communication, Kaj Hjelm, 2006-11-09; Jan-Åke Stegå, 2006-11-24)

#### 5.2.1.2 Integration Planning

Having thought through the reasons for an acquisition is something that simplifies the integration of an acquired company. ROL initially had a relaxed approach to integrating the new companies. However, they quickly learnt that replacing management became necessary to secure true control of a company. (Personal communication, Jan-Åke Stegå, 2006-11-24)

*"We prefer a Swedish management abroad, it is really hard to infuse our values if the old management is allowed to remain"*

(Personal communication, Jan-Åke Stegå, 2006-11-24)

A costly mistake was most notably made in the acquisition of Gibson-Lea where its management were set in old ways and had to be replaced. ROL has learnt that it is essential to take care of the acquired companies from day one. Often appointing top positions with someone trusted from Sweden or otherwise trusted by ROL to facilitate easier communication and to infuse the ROL values of innovation, excellence and entrepreneurship. (Personal communication, Kaj Hjelm, 2006-11-09; Jan-Åke Stegå, 2006-11-24)

Even though the report and control systems of all companies within ROL are the same the core integration is done by managerial control. In keeping with their values ROL likes to see entrepreneurs managing their subsidiaries, and once management is functioning to ROL's liking the freedom and duty is given to each to build a customer list of their own, making them less dependant on the original global contracts that in many cases were the reason for their initial existence. This has manifested itself as a highly decentralised structure, which some managers find a bit to free and lacking in direction. (Personal communication, Jan-Åke Stegå, 2006-11-24)

### 5.2.2 Family Business

The ownership of ROL lies within the Hjelm Family (Personal communication, Kaj Hjelm, 2006-11-9). Mr. Kaj Hjelm is the founder, chairman of the board as well as CEO of ROL AB. He is the entrepreneur and icon of the business. His son Mr. Johan Hjelm has previously been working as a sales manager, as well as been represented in the board, but recently made CEO over ROL International AB. ROL International lies under ROL AB and is the business unit that control all the international operations (Personal communication, Jan-Åke Stegå, 2006-11-24). Mrs. Hjelm and a daughter in the family are members of the board of directors (www.ad.se, 2006).

ROL AB is perceived as a family business by both the CEO and the CFO (Personal communication, Kaj Hjelm, 2006-11-09; Jan-Åke Stegå, 2006-11-24). The motivations for this are that the owners are active in and have strong influence over the business. Other factors mentioned are long term thinking and the fact that it is *"our own money"* at stake (Personal communication, Kaj Hjelm, 2006-11-09). The positive effects of this were considered to be that the decision process was simplified *"no politics"* in contrast to long discussions with shareholders, board members and other possible stakeholders. The ownership structure was also believed to create a more long term employee policy and ROL intend to communicate the family's values to all its employees and subsidiaries. (Personal communication, Kaj Hjelm, 2006-11-09)

The corporate culture is communicated mostly through formal channels like employee value statement, mission statement and goals. These statements are aimed at creating an entrepreneurial culture in every business unit. Otherwise, the subsidiaries are operating mainly independently (Personal communication, Jan-Åke Stegå, 2006-11-24). However, there is no intention to communicate the Swedish national culture upon the numerous international subsidiaries. Mr. Hjelm believed that you have to adapt to the different national cultures and that the subsidiaries can do business in their own manner. The subsidiaries are also a source of knowledge when it comes to connections with suppliers and customers (Personal communication, Kaj Hjelm, 2006-11-09).

Mr. Kaj Hjelm and Mr. Stegå were, as well, asked to grade the organisation after Trompenaars and Hampden-Turner's (1997) corporate culture model. As explained earlier the model is a matrix with "person orientation" to "task orientation" on the horizontal line and "hierarchy" and "decentralisation" as extremes on the vertical line. Mr. Stegå explained that the organisation is decentralised with its business units operating mostly independently. If the reason for this was based on a conscious decision or a result of the lack of structure, he could not say. However, the company is more hierarchical in the Jönköping location due to the closeness to Mr. Kaj Hjelm, since he has a strong decision power, and it becomes more decentralised in more remote locations where it is harder to exercise direct control (Personal communication, Jan-Åke Stegå, 2006-11-24). Continuing, he expressed the culture to be more person orientated than task orientated. Especially on positions on a higher level of the organisation with contact with the Mr. Kaj Hjelm where he, almost always, was present on the hiring interviews (Personal communication, Jan-Åke Stegå, 2006-11-24). The authors were unable to obtain an answer from Mr. Kaj Hjelm to this question.

## 5.3 General Views on Family Business

As complement to the firm interviews the authors asked a researcher, within the area of family business, to provide his general views and to discuss issues not found in theory. The characteristics commonly defining a family business, found by Mr. Nordqvist (Personal communication, 2006-11-17), are the role of the dominant family and the concentration of ownership through generations. Most often this creates a strong corporate culture that is an important issue in these firms. Fast leadership by intuition and less politics are other factors that separate family firms from others. (Personal communication, Mattias Nordqvist, 2006-11-17)

Mr. Nordqvist (Personal communication, 2006-11-17) agrees that a long term view, expressed especially by Bröderna Brandt, is a family firm characteristic and affects the view on acquisitions. The general view is that acquisitions are connected with too high risks and thus organic growth is the preferred growth strategy (Personal communication, Mattias Nordqvist, 2006-11-17).

Another characteristic discussed is not covered in theory and perhaps not specific to family firms but Mr. Nordqvist (Personal communication, 2006-11-17) had noticed that many family firms had a strong focus on the customer. This is connected to the fact that a lot of family firms have the family name in the company name or strongly associated with it. This means that how the business act reflect directly upon the family, thus creates an extra strong incentive to treat customers well. (Personal communication, Mattias Nordqvist, 2006-11-17)

The family is believed to influence the strategy of the firm through the concentrated power it possesses which may create a special leadership type. Other interesting aspects discussed are the informal meetings and the informal hierarchy manifested in some family businesses which are based on individual roles and perhaps not competence based. This presents an interesting contradiction where family firms generally seem to have a low employee turnover despite the fact that employees have limited promotion opportunities when management positions are often reserved for heirs. (Personal communication, Mattias Nordqvist, 2006-11-17)

These different aspects all matter when it comes to making the strategic decisions whether or not to acquire and what firm to acquire.

## 5.4 General Views on Acquisitions

This section will discuss acquisitions from an experienced scholars view in order to deliver a more comprehensive picture. This will further strive towards making up for the empirical research only into two companies and thus increase the generalizability. Leona Achtenhagen (Personal communication, 2006-11-21) argues that mergers and acquisitions does mostly occur in larger companies and is only a part of the smaller companies' growth strategy when it is not possible to grow further in a organic way. In addition, smaller companies seem to be more opportunity driven while larger companies tend to plan acquisitions more and actively search for targets. (Personal communication, Leona Achtenhagen, 2006-11-21)

An acquisition can often be a result of several different motives, both offensive and defensive. The offensive motives includes increased market share and to acquire new technology. These offensive motives are the most common among the companies that Ms. Achtenhagen (Personal communication, 2006-11-21) has encountered, although there are some acquisitions that state more defensive motives as the reason for the acquisition e.g. handle overcapacity and reduce costs. Further, Ms. Achtenhagen (Personal communication, 2006-11-21) discuss that motives connected to management hubris and empire-building is difficult to discover since managers avoid admitting these reasons and tend to argue that it is due to a more common motive, e.g. synergy effects, although this is the true underlying reason for the acquisition. There are also signs that indicate a shift in motives over time i.e. as the company grows and becomes more complex the growth strategy evolves and so does the acquisition motives. This evolvement of the acquisition motives seems to be correlated with evolvement of the business model over time. (Personal communication, Leona Achtenhagen, 2006-11-21)

Further, Ms. Achtenhagen (Personal communication, 2006-11-21) talks about the integration process. According to her experience, the acquisition is more likely to succeed if there are large size differences between the two actors. This creates a clear 'take over' situation and it is obvious which company is to dominate and set the rules. This enables a clear leadership that can direct the organisation and culture. The more equal the companies are in size, the more likely is the acquisition to fail. Another possible reason to acquisition failure is that management does not take enough personal interest in the integration process and thus there is less focus on this very important issue. (Personal communication, Leona Achtenhagen, 2006-11-21)

# 6 Analysis

*In this section, the authors will analyse the findings from the interviews and secondary data. The results will also be compared to theory to confirm or reject earlier findings and to see how the family business context influences general theories. Since there are gaps in theory, the authors are unable to structure the analysis according to existing theories. Consequently, the structure will begin with the context of the family business leading on to acquisitions and along the way touch upon the other influencing factors.*

## 6.1 Family Business Definition

Bröderna Brandt applies to the narrowest definition of family business described in literature with family ownership and management, the perception that it is a family firm in addition to that it also has experienced a transition of majority ownership from the first generation to second, and in this case even to the third generation (see Westhead et al., 2002). The daily leadership, closeness to operations, and strategic influence are also definitions that seem to apply in this case (see Davis, 1983; Storey, 2001). Another factor mentioned in theory and by experts is the long-term attitude and commitment to making business which was obvious in Bröderna Brandt and also visible in ROL.

ROL AB fits this thesis' definition (see Westhead et. al., 2002) of a family firm and will in a few years time most likely go through a generational shift and thus, as well as Bröderna Brandt, classify in the narrowest definition. However, ROL is perceived as a family business by the founder and the CFO in Jönköping but on account of its many small subsidiaries throughout the globe the question is if all employees really regard it to be a family business.

## 6.2 Comparing two Family Businesses

Although both firms fit into the family business template the differences are obvious. Not only because of apparent factors like industry and markets but factors that can be connected to family business research. ROL is perhaps less nurturing, and defensive, of its territory as it is still expanding it. The fact that it is spread over the globe and is rapidly growing makes the family influence much harder to communicate than Bröderna Brandt that is a mature firm, in a mature industry, and has been present on its local market for a long time. The time factor is also essential for creating a common corporate culture in all subsidiaries. ROL's subsidiaries are adapting themselves to their respective national culture and it is questionable if the corporate culture and family culture really can be communicated through only the formal channels like value statements and employee policy.

The fast pace of the company and the values communicated through, and by, the founder makes ROL a very entrepreneurial firm and different from Bröderna Brandt. Mr. Stegå (Personal communication, 2006-11-24) stated that the actions taken by ROL has suited their growth but might not fit them as a more maturing company. This corresponds to the difference the authors observed between ROL and Bröderna Brandt. The research by Johannisson (2002) concluded that the most successful family firms were the ones that were entrepreneurial as well as family and professional management oriented. The question is, if one should distinguish between family firms with various levels of entrepreneurialism, managerialism and paternalism to further narrow down the definition or grouping of family firms. By doing this the differences inbetween family firms might be reduced in order to better be able to compare them to each other and non-family businesses.

Informal decision making 'at the breakfast table' is definitely present at both these firms, although there are some differences (see Nordqvist, 2005). Although Bröderna Brandt still has formal, monthly, meetings with all the site managers but Mr. Torbrant expressed that it sometimes was mostly a formality and a communication channel to the employees since the 'interesting', big questions already had been discussed and decided upon by the owning brothers. On the other hand, the authors got the impression that decisions at ROL, due to its geographical spread, were even more concentrated to the Hjelm family in Jönköping. Regarding the family influence discussed in theory it is, in these cases, mostly communicated through the owners/CEOs thus the ones in the centre field of the three-circle model of family firms (see Gersick et. al, 1997 from Nordqvist, 2005). These individuals are the ones that communicate the family values and their own values. Other family members working in the business must have more corporate influence then other employees at similar positions due to their possible informal meetings with the top management. It seems that actors that appear in the middle of the three-circle model tend to be seen as cultural heroes within the organisation. This tendency can be noted both with the two brothers in Bröderna Brandt and with Kaj Hjelm at ROL.

## 6.3 Family Business Characteristics and Strategy

Whether or not the family is a success factor (see Johannison, 2002) depends on how one uses it. Mr. Hjelm at ROL saw the biggest advantage in the fast decision making and little politics thus in the actual ownership structure whereas Bröderna Brandt actively tries to use the image of a family firm as a marketing tool to satisfy its customers. This image also affects the strategy, for example to have more and small dealerships in order to create the closeness to customers and to try to make them feel relaxed and at home.

Critique from theory on family firms included; lack of professionalism, family arguments affecting the business, and promoting family before merits (see Poutziouris, 2002). Lack of professionalism is nothing the authors have encountered, although this could be hard to notice after just a few interviews, the question is if a firm could survive this long without a professional acting management. Although it may not be perceived, or interpreted, as a lack of professionalism, it seems that both firms in some cases act more intuitively than in the most economically rational manner (see Hall, 2002; Murray, 2002). Family arguments were nothing the authors came across either, however, promoting family before merits could definitely be present. If, for example Mr. Johan Hjelm, was promoted before someone with better merits is something unknown but he seemed to be the only candidate for the CEO position in ROL international. Mr. Sten Brandt and his brother were made top managers at an unusual young age. The question here is what kind of merits count? The critique was certainly based on merits like formal education and past work experiences. Relevant here is Schwass' (2005) "wise growth" theory that states that a unique characteristic of family firms is the development of successful leadership through generations. The heir is one way or the other, brought up within the family business sphere and mentored by the previous leaders over a long period of time. This could build up a specific ability that may be more important then other merits. Noticeable is also that no research found that family-owned businesses that selected the successor from all of the family members were managed worse than other businesses (see Dorgan et al., 2006). A more apparent concern is the "glass ceiling" for other employees discussed with Mr. Nordqvist (Personal communication, 2006-11-17).

Another family business characteristic found to have possible significance in an acquisition process is the connection between family name and brand, as well as market. Something evident in Bröderna Brandt was its strategy to be close to its customers, thus strongly represented in its local market. Since the policy described was that anyone could contact the top management consisting of family members, plus that the family name is a part of the brand, makes the family vulnerable for business mistakes. This coincides with theory about family firms more inclined to act ethically (see Poutziouris, 2002; Hitt et al., 2001). Carrying the family name as its brand and the local presence may push Bröderna Brandt into some irrational decision-making. The authors feel that the reconstructing undertaken by ROL in the Gibson-Lea acquisition would have been impossible for Bröderna Brandt even if the integration of, for example, Vexia into Bröderna Brandt would have benefited from a more stringent strategy. This may, however, be a geographical construct, leaving family name out of the equation, since the authors also find it doubtful that ROL would have fired so many people in a company situated close to Jönköping.

Theory suggests that family businesses tend to avoid taking risks since they are dealing with their own money (see Nordqvist 2005). Sten Brandt, however, argued that he and his brother probably were more inclined than other companies to accept some risks. Further, he argued that this was due to family business having a different time perspective than public companies. A public company is less likely to accept a risk if the pay-off lies in the distant future since they are utterly governed by their shareholders who tend to expect pay-off within a few years whereas the family can make an investment which may not give profit before the next generation. ROL, on the other hand, had another perspective on risk. They encourage their employees to take small-scale risks in order nurture the entrepreneurial spirit within the organisation. This view of risk also differs from theory's general view of risk-taking in family businesses.

Internationalization was found to be connected to high level of uncertainty and high risk assumed in the Uppsala model (see Welch & Luostarinen, 1999; Johanson & Vahlne, 1999; Arvidsson, 1997; Johanson & Wiedersheim-Paul, 1999). ROL had lost a lot of money in the Gibson-Lea acquisition and always wanted someone known, preferably from the Jönköping headquarter, at the new sites abroad in order to have control and reduce risk (Personal communication, Kaj Hjelm, 2006-11-9; Personal communication, Jan-Åke Stegå, 2006-11-24). Mr. Torbrant (Personal communication, 2006-11-06) drew from his experience in the fashion industry and claimed that a lot of the international acquisitions and business making is a gamble with ten times more risk and stated that having someone that you trust at the location is essential. Another factor that reduces risk and uncertainty is ROLs internationalisation motive to follow its large customers. Risk is reduced by the fact that at the first stage of the process it follows its existing customers and not until later establishes new contracts at the location (Jan-Åke Stegå, 2006-11-24). Although not following the distinguished pattern from the Uppsala model the underlying assumptions match. The model explains internationalisation as a process of incrementally increasing the international involvement, because of the underlying uncertainty, and the fact that ROL follows its customers and not makes heavy investments without existing customers, supports this. Further, this is a internationalisation motive not encountered in theory.

Acquisition opportunities can be either supportive or contradictory to the firms' strategy but because the firms seem to fit with the theory of strategy as practice it means that family firms are capable of taking fast, but still valid decisions, and thus adapt the strategy with a acquisition (see Whittington, 1996). The authors have found that the theories and empirical findings regarding family business supports that individuals from a family are actively involved and extremely influential in the operations which in turn are requirements for strategizing. Thus, strategizing could be a characteristic of family firms.

The family business context of this thesis has taken a narrow approach in defining the family firm, and so does the managers of the investigated companies. Both adhere to having strong family cultures. As noted by scholars, a characteristic of a family firm is a strict fiscal policy with reluctance towards outside capital which in the case of strategic change theory would make the family firm culture a sluggish factor (Rajagopalan & Spreitzer, 1997). However the authors have found a nimble component to the family firm, given the access to capital, the firms have presented a remarkable dexterity in taking advantages of opportunities presented to them. Another factor attributed to the family firm by the authors is the importance of culture and management as a key component for the success of an acquisition.

## 6.4 Acquisition Strategy

The acquisition strategy found in these firms when targeting other firms are that significantly smaller firms are acquired. This is not surprising due to family business traits like strong culture, need for control and ownership, in addition to reluctance to bring in outside capital (e.g. Denison et. al, 2004; Mattias Nordqvist, Personal communication, 2006-11-17). All these factors would make a merger of equals practically impossible. The unanimous explanation from the companies was that it is much easier to come in and dominate in order to take control (ROL) and to transfer the culture (Bröderna Brandt). This correlates with Daniel and Metcalf's (2001) findings that the complexity in acquisitions and culture integration grows with age and size. Another explanation is that a merger is more complex from the start and to merge two family firms with strong cultures and leaders would take this to its extreme. This was the reason why the authors separated mergers and acquisitions and it has been confirmed by Ms. Achtenhagen (personal communication, 2006-11-21), theories and empirical studies.

Bröderna Brandt structures their acquisition process quite simply. First, an opportunity emerges and then management consider whether the target fits the organisation. If there is a fit, an analysis process starts. If the analysis shows that the company is interesting to acquire, they settle the deal. Further, these acquisitions have always been opportunity driven and Bröderna Brandt has never been looking to find a suitable acquisition target. In ROL, the process is not as straight forward and is harder to identify. In most cases, ROL has a well established business relation with the organisations that they are to acquire. When the relationship reaches a point when they find it difficult to grow further and develop in the present constellation, they consider whether they should acquire the organisation. This is then often continued with the deal. In common for these approaches is that they do not seem to follow a preset process. Theory on the other hand presents a very clear and organised process for the acquisition with clear phases and most often a case where the acquirer is searching actively for organisations to acquire (see Frankel, 2005). In the acquisition processes the authors have encountered, only the ROL ergonomics deal shows an active search process from the acquirer's side. According to Ms. Achtenhagen (personal communication, 2006-11-21), this can be related to the fact that theories on acquisition are mostly written for and the result of the situation in large to mega-sized companies.

The pre-acquisition planning, stressed as a success factor, seems not to be necessarily employed in the discrete phases described in theory (see Hitt et. al, 2001; Frankel, 2005), rather the acquisitions were done based on intuition, opportunity and an economic overview. This may be a result of the difference in financial goals and pressures, where the larger public companies, studied in the literature, need to actively seek for acquisition targets and quickly make them show profits once the acquisition has taken place. Hence, an important issue in order to justify the acquisition in front of the board and shareholders. The family firm context is different here since the initiator, architect, board member and owner are the same person or linked at arms length, thus not requiring the minute documentation required when pushing an idea through normal decision structures. The return on investment requirements have also shown to be different in the family firm since a completely different view is taken on long-term investments.

The theory on the post-acquisition success factors had some valid points supported by the empirical studies (see Mickelsen & Worley, 2003). Strong leadership and issues regarding human resources in the acquired firm were regarded as very important. The factors regarding integration were both a question whether or not to integrate and how to do it. If integrating the firm, it was important to use leadership as well as human resources, both from the acquired and the acquiring firm to complete the process. In this phase culture is important and strong consideration is needed. Bröderna Brandt's latest acquisition will not require any integration at all and it does not seem to be important due to the motive of that acquisition.

The managers of the companies have in more then one instance communicated motives commonly described by academia (see Gaughan, 1996; Johnson et. al, 2005). Both claim economies of scale as major motives for growing through acquisitions, and vertical integration has been a reoccurring theme within ROL while synergies and geography has governed acquisitions within Bröderna Brandt. The latter also sees operating synergies from employing a common back-office to newly acquired firms. These acquisitions fall into what Lorange (1994) describes as the family business strategy where the new projects undertaken are related to the core business and build on existing know-how which allows for the sharing of resources throughout the company's subsidiaries.

An interesting acquisition by Bröderna Brandt is the used car dealership in Enköping. Not only is this a slight diversification from the core business but also a case of portfolio strategy as identified by Lorange (1994). In this case Bröderna Brandt used capital from their core business to diversify into a related field creating an inventory outlet. This, also, seems to be the case in the acquisition of ROL's ergonomic division which was a diversification motivated by the need and creation of financial stability. Internationalisation was only a valid motive for ROL out of the two, since Bröderna Brandt is strictly a national firm. As communicated by Mr. Kaj Hjelm one of the more important acquisitions made by ROL was due to internationalization motives, entering the British market as a gateway to other markets abroad (see Andersson et. al, 1997). However, as Ms. Achtenhagen (Personal communication, 2006-11-21) noted, reasons such as economies of scale and synergies are reasons often given but very hard to measure.

The more intuitive motives, on the other hand, gives reason to the acquisitions made by both companies. In the more mature Bröderna Brandt the authors observed a defensive approach repeatedly acquiring to lock out competition. Both defending the area where their company brand is well known but also reducing the risk of being cornered by growing competition which might have had their sights set on Bröderna Brandts territory. Additionally, this was also mentioned as an acquisition motive by another family business owner, Mrs. Marianne Brismar CEO of Atlet (Personal communication, 2006-12-06). In the case of the vertical integration of suppliers into ROL, this allowed for the entrepreneur

Mr. Kaj Hjelm to realize his vision by excerpting the same control over all aspects of his business, and bringing suppliers up to the standards required to compete internationally.

Theory brought up the concept of management hubris. However, the concept that a manager makes decisions based on his own interests and to the company's disadvantage, falls when the manager's interest coincides with the company's, as it is in these family firms. The result of this does not imply that personal decisions cannot be made, rather that the personal motives are for the benefit of the organisation.

Before taking up success factors of acquisitions with the companies, the definition of a successful acquisition was asked for. The answer at Bröderna Brandt was puzzling. With the long term perspective it was difficult to specify a failed acquisition since all acquisitions achieved their purpose in time. So the question was merely how long time it would take until the goal was met. This must be inexcusable at a publicly listed company. ROL on the other hand was unable to specify as precisely what a successful acquisition was.

### 6.4.1 Acquisition Strategy and Culture

There is an awareness of corporate culture in both companies and the importance of corporate culture influences how they act in the acquisition process. The importance of culture identified here correlates with Weber's (1996) research assigning culture the highest importance in an M&A. The strategists at Bröderna Brandt both see culture as a powerful tool in the work towards an efficient organisation. Although culture is often set very deeply in the organisation they feel that it is possible to change the culture over time. This is somewhat similar to what strategists said at ROL where they argued the importance of trying to incorporate their culture during the integration process. This also indicates the fact that culture can be changed. It coincides with Desphande and Webster's (1989) comparative management view of culture where culture guides the operations and it can be used and changed over time.

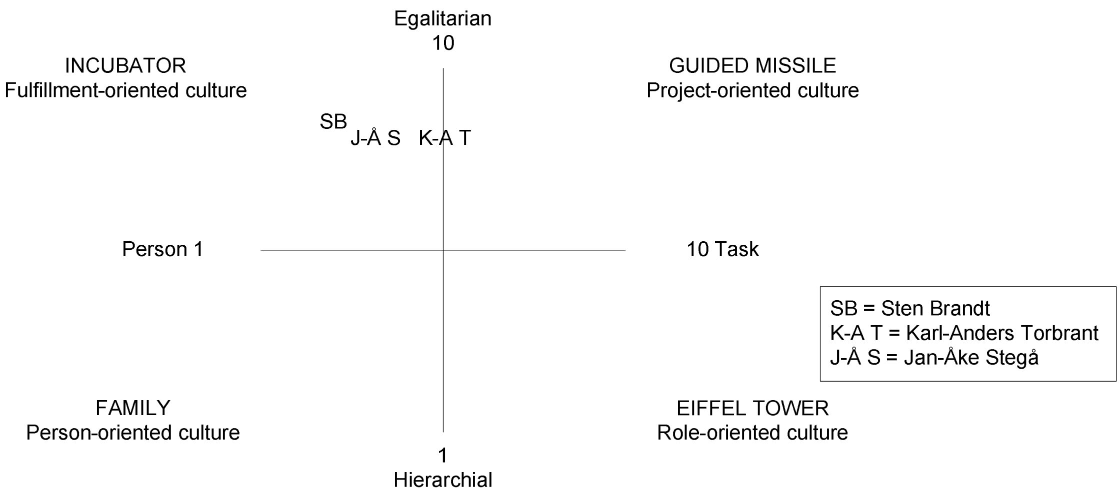


Figure 6-1 Corporate images (See Trompenaars & Hamden-Turner, 1997)

When one plots the views of the strategists in the model by Trompenaars and Hamden-Turner (1997), both companies seems to classify as incubator organisations (see figure 6-1). This seems unlikely since this type of organisation is described as a utopian and nearly anarchistic organisation. Trompenaars and Hamden-Turner (1997) shows that according to their research, Swedish organisations generally classify to be between incubator and guided missile structure fairly high on the egalitarian dimension. If one combine this with the fact that family businesses tend to be focused on the individual, e.g. Kaj Hjelm is almost always present in the recruitment process of persons he have some kind of relation to, and strive towards achieving closeness to the leader and an ‘open-door’ relation to managers, one can see that a Swedish family business should be shifted upwards to the left. This gives reason to believe that the model presented by Trompenaars and Hamden-Turner (1997) is a bit too static and limited when analysing organisations in different national cultures and with different heritage. Although the model is limited, it is still useful when used with moderation.

# 7 Conclusion

*The conclusion will strive towards answering the research questions presented for this thesis. First, the influence of the family in the acquisition process will be presented. Secondly, cultural considerations with regards to acquisitions is displayed.*

- *How two different family firms structure and utilize their acquisition strategy?*

None of these firms have a constant acquisition strategy i.e. a long term plan for growing through acquisitions. However, in contrast to what some theory explained, family firms do use acquisitions to grow. Bröderna Brandt Bil AB act in a way that are similar to the acquisition strategy structure suggested by theory, although in a more simplified manner. The acquisition strategy seems to mostly be utilized as a guideline rather than a plan set in stone. Controversially, ROL AB appears not to have an outspoken acquisition strategy, instead acquisitions are structured according to the owners' values and beliefs. In both firms, the acquisition strategy is largely driven by the motive for the acquisition. The motives stated to drive most acquisitions were rational motives, e.g. synergies and economies of scale, although less conventional motives, e.g. defending market area and keep out competition, were also stated and important for the acquisitions. Except being driven by motives the strategies were largely influenced by the characteristics of the acquired firm, e.g. Bröderna Brandt acquiring a Volvo dealer compared to acquiring a Ford dealer. The difference in acquisition strategy mostly concerns to what extent the acquired company should be integrated in the business. In common for both firms is the personal presence of the owner(s)/manager in the acquisition process. The owner(s) directs the process personally and is thus assuring that family values is integrated in acquired companies. Since family businesses have a longer time frame than non-family businesses, they have another perspective on whether an acquisition is successful or not. This means that the acquisition does not need to pay off in the short-term and the successfulness is determined by other measures than purely financial values.

- *To what extent does culture affect the acquisition strategy?*

When comparing family businesses to theory mainly written for public corporations it seems that the different dimensions of culture is the dividing factor. Iconic hero figures at the top and employees related to them at lower levels, an awareness to communicate the right values reflecting the family and a closeness to the owners influences how the business operates and develops. By being more "culturally aware" the family firms display an acquisition behaviour that focuses more on the fit between the already developed culture and the one in the targeted firm. The central role of the family may lead to financially unfounded strategic actions, irrational in comparison with the structured view that is given in theory. Although not considered rational in the classical short-term, financially driven firm, it may be rational in a more long-term, value-driven family firm, e.g. the density of dealerships at Bröderna Brandt. The family business cultures influence on acquisition strategy can also be noted in the integration process in ROL AB's acquisitions where the success is determined by the ability to integrate core values in the acquired firm. The difference between the international and the national organisation with respect to growth strategies can be noted by the amount of risk that is accepted in an acquisition, i.e. ROL is prepared to take on a greater risk than Bröderna Brandt. The difference in risk taking can be traced to the different cultures i.e. ROL has an entrepreneurial, international and more aggressive growth strategy which implies more risks whereas Bröderna Brandt has a more defensive approach with calculated risks.

# 8 Discussion

*The discussion will encompass the authors' personal thoughts and ideas within the subject. Moreover, a section examining the limitations and shortcomings with the thesis will be presented. Finally, the authors will give suggestions for future research in the area.*

## 8.1 Complementary Reflections

It was interesting to compare these two companies. They both fall almost within the same definition of family business. Both are owned and managed by one family, perceives themselves as a family business and Bröderna Brandt has experienced generational shifts and ROL is experiencing it now. By number of employees they are also very similar. Still they are two completly different companies. Bröderna Brandt is a mature firm in a stable environment with its natural geographic borders and ROL is still an entrepreneurial firm with fast growth and a constantly expanding international market. Both are lead by the owners but the pace of things is different where ROL are actively searching for new opportunities and Bröderna Brandt is defending its turf. The conclusion of this is when classifying family businesses the time factor and maturity of the firm is important to include in the definition.

## 8.2 Thesis Criticism

The lack of existing research within this area complicated the research and design of the interview questions. Perhaps with better interview questions the authors had been able to dig deeper and may discovered, for example, more differences between international and national growth strategies.

The authors have, due to have limited the research to only two companies, been able to get a deeper understanding of the companies and the acquisition process. The interviews with researchers within the areas of interest have enabled the authors to grasp the general picture to complement the deeper investigation of the two family companies.

## 8.3 Future research

The authors have planted a seed for future research within this area that are clearly in need of more research. Hopefully other researchers can complement the study with more similar research and thus broaden the academic knowledge within mergers and acquisitions in a family business environment. Broader more extensive research with better defined family businesses would be needed in order to really unveil the differences between the family business way of making acquisitions and other firms. A direct comparison of family firms and firms with different ownership structures, albeit similar in size and operations, could better identify the uniqueness characterising family firms.

One area the authors have not focused on is the post-acquisition phase where the actual integration takes place. The authors believe this phase to be strongly affected by the ownership structure of the family firms since in this thesis the culture, a key aspect in integration, was identified as an important factor.

The authors also believe family firms to be opportunity driven when it comes to acquisitions. Pairing this with the reluctance to bring in outside capital, understanding the actual funding of acquisitions in family businesses could be another field to explore.

One of the special characteristics just briefly touched upon is the fact that family firms seem to have a low employee turnover despite the limited promotion opportunities when top positions might be reserved for family members. How this contradicting finding works would be an interesting area to study.

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# Appendix 1

Interview guide 1 in English

- Corporate background
    - Development during the last decades
    - Growth?
    - Milestones in the corporate history?
    - Business idea and goals?
- Corporate strategy
    - How do you perceive the concept of strategy?
    - What is your strategy?
- Acquisitions (feel free to give examples)
    - Do you have strategy for acquisitions?
    - In what situations has it been suitable for you to do an acquisition?
        - What motives have initiated the acquisition?
    - How do you execute an acquisition?
        - Describe the process from the beginning to the end!
        - Are there different phases in the process?
    - What is a successful acquisition?
        - What factors do you believe cause a successful acquisition?
        - Is there anything one should avoid in order to achieve a successful acquisition?
- Culture
    - What is corporate culture to you?
        - How does corporate culture affect your strategy?
        - Has your corporate culture affected your behaviour in the international environment?
    - How are you affected by differences in national culture?
- Family business
    - Do you see yourself as a family business?
        - Why?
    - What do you believe is the major differences between your company and companies with other ownership structures?
    - How does the ownership structure affect:
        - The corporate strategy?
        - The growth strategy?
        - The leadership style?
        - The corporate culture?
    - How hierarchical do you believe that your company is on a scale where;
        - 1 = very hierarchical with centralized leadership and 10 = very flat with decentralized leadership.
    - How task-oriented is your organisation on a scale where;1 = Very personality focused and 10 = very task focused

# Appendix 2

Intervju-underlag 1 på Svenska

- Företagsbakgrund
    - Utveckling de senaste 10-15 åren?
    - Tillväxt?
    - Kritiska skeden i företagets historia?
    - Affärsidé och mål?
- Strategi
    - Vad är strategi för er?
    - Vad är er strategi?
- Företagsförvärv (Förklara gärna genom att ge exempel)
    - Vid vilka lägen har det varit aktuellt för er med företagsförvärv?
        - Vilka motiv har initierat förvärv?
    - Hur brukar ni gå tillväga vid ett förvärv?
        - Beskriv processen från början till slut!
        - Finns det olika faser i processen?
    - Vad är ett lyckat förvärv?
        - Vilka faktorer anser Ni resulterar i ett lyckat förvärv?
        - Är det något man bör undvika för att öka chansen för ett lyckat förvärv?
- Företagskultur
    - Hur ser ni på begreppet företagskultur?
        - Hur påverkar företagskulturen ert strategiska arbete?
        - Har er företagskultur påverkat hur ni har agerat i en internationell miljö?
    - Hur påverkas ni av nationella kulturskillnader?
- Familjeföretag
    - Anser ni er vara ett familjeföretag?
        - Varför?
    - Vad tycker ni skiljer er från företag med andra ägarstrukturer?
    - Hur påverkar ägarstrukturen:
        - Företagets strategi?
        - Företagets tillväxtstrategi? (Inställning till uppköp osv.)
        - Ledarskapsstil?
        - Företagskulturen?
    - Hur hierarkisk anser ni att er organisation är på en skala där;
        - 1 = Mycket hierarkisk med centraliserat ledarskap och 10 = Mycket platt med decentraliserat ledarskap
    - Hur uppgiftsorienterad är er organisation på en skala där;
        - 1 = mycket personlighetsfokuserad och 10 = mycket kompetensorienterad

# Appendix 3

Interview guide 1 in English

- Corporate strategy
    - How do you perceive the concept of strategy?
    - What is your strategy?
- Acquisitions (feel free to give examples)
    - Do you have strategy for acquisitions?
    - In what situations has it been suitable for you to do an acquisition?
        - What motives have initiated the acquisition?
    - How do you execute an acquisition?
        - Describe the process from the beginning to the end!
        - Are there different phases in the process?
    - What is a successful acquisition?
        - What factors do you believe cause a successful acquisition?
        - Is there anything one should avoid in order to achieve a successful acquisition?
- Culture
    - What is corporate culture to you?
        - How does corporate culture affect your strategy?
        - Has your corporate culture affected your behaviour in the international environment?
    - How are you affected by differences in national culture?
- Family business
    - Do you believe that Bröderna Brandt is a family business?
        - Why?
        - Do you think that this affects the decision making in the company?
        - Does the family influence the decision making in the company?
        - What is your role within the company? What is special with working within a family business?
    - How does the ownership structure affect:
        - The corporate strategy?
        - The growth strategy?
        - The leadership style?
        - The corporate culture?
    - How hierarchical do you believe that your company is on a scale where;
        - 1 = very hierarchical with centralized leadership and 10 = very flat with decentralized leadership.
    - How task-oriented is your organisation on a scale where;
        - 1 = Very personality focused and 10 = very task focused

# Appendix 4

Intervju-underlag 2 på svenska

- Strategi
    - Vad är strategi för er?
    - Vad är er strategi?
- Företagsförvärv (Förklara gärna genom att ge exempel)
    - Vid vilka lägen har det varit aktuellt för er med företagsförvärv?
        - Vilka motiv har initierat förvärv?
    - Hur brukar ni gå tillväga vid ett förvärv?
        - Beskriv processen från början till slut!
        - Finns det olika faser i processen?
    - Vad är ett lyckat förvärv?
        - Vilka faktorer anser Ni resulterar i ett lyckat förvärv?
        - Är det något man bör undvika för att öka chansen för ett lyckat förvärv?
- Företagskultur
    - Hur ser ni på begreppet företagskultur?
        - Hur påverkar företagskulturen ert strategiska arbete?
        - Har er företagskultur påverkat hur ni har agerat i en internationell miljö?
    - Hur påverkas ni av nationella kulturskillnader?
- Familjeföretag
    - Anser du att Bröderna Brandt är ett familjeföretag?
        - Varför?
        - Hur tycker du att detta påverkar beslutsfattandet i företaget?
        - Anser du att familjen har ett stort inflytande på beslutsfattandet inom företaget?
        - Vad är din roll inom företaget? Vad är speciellt med att arbeta inom ett företag med ett starkt familjeägande?
    - Hur påverkar ägarstrukturen:
        - Företagets strategi?
        - Företagets tillväxtstrategi? (Inställning till uppköp osv.)
        - Ledarskapsstil?
        - Företagskulturen?
    - Hur hierarkisk anser ni att er organisation är på en skala där;
        - 1 = Mycket hierarkisk med centraliserat ledarskap och 10 = Mycket platt med decentraliserat ledarskap
    - Hur uppgiftsorienterad är er organisation på en skala där;
        - 1 = mycket personlighetsfokuserad och 10 = mycket kompetensorienterad