How management creates and realizes synergy

Cross-border mergers & acquisitions

Bachelor’s Thesis in Business Administration

Authors: Matilda Andersson-Thunberg
         Tobias Fjellman
         Jonatan Partin

Tutor: Börje Boers

Jönköping January 2008
Abstract

Mergers and Acquisitions (M&A) have been around for a long time and has experienced waves of popularity during these times and they are very much an important part of today’s business world. M&As have also become increasingly international which can be due to the rising global competition. The popularity of cross-border M&As makes it important to look at M&As from an international perspective. One of the main reasons a company choose to M&A is growth (Lees, 2003) and there are several possible motives why a company chooses to grow through an M&A but the most common motive is to create synergy (DePhamphilis, 2005). Although synergy is one motive, according to the literature more M&As destroy value instead of creating it (Habeck, et al. 2000). This makes this subject interesting to study: especially the post-M&A phase since the integration process in this phase has been pointed out to be the riskiest, when creating synergy, but also the most crucial in order for a successful M&A (Habeck, et al. 2000; Shaver, 2006).

Purpose:

The purpose of this thesis is to analyze how the management of a company create and realize synergies in the post-M&A process of a cross-border M&A.

Method:

In order to fulfil the purpose the case study approach was chosen. The empirical data was gathered through semi-structured face-to–face (except two telephone) interviews. This approach was used because the information needed to fulfil the purpose was of the character to be found in a qualitative way by going in-depth into the field of interest with a management team with extensive knowledge in this subject.

Conclusion:

Creating and realizing synergies is a long process on average 5-10 years. There is no manual for the M&A process only a general approach and each M&A process is customized. It was found that one cannot separate the pre-deal phase from the post-phase. An M&A process includes three different important parts; the strategic intent phase, the due diligence phase, and finally the integration phase. Key success factors for conducting an M&A are that you set up a special management group which will focus on the creation and realisation of synergies and that one focus on motivating and assisting managers through offer new exiting challenges.
Acknowledgements

The authors of this thesis would like to thank the company that this case study is based on and everyone at the concerned company that has contributed with their time and knowledge.

We are also grateful for the help from our supervisor Börje Boers and our fellow students from our seminar group that has given helpful advice and comments.
# Table of Contents

1 Introduction ............................................................................................................................................................................................... 1  
1.1 Background .......................................................................................................................................................................................... 1  
1.2 Problem discussion ................................................................................................................................................................................... 2  
1.3 Purpose ........................................................................................................................................................................................................... 3  

2 Frame of reference ...................................................................................................................................................................................................... 4  
2.1 What are M&As? .............................................................................................................................................................................................. 4  
2.2 Objectives and motives of M&A .............................................................................................................................................................. 4  
2.3 Cross-border M&A ......................................................................................................................................................................................... 5  
2.4 Due diligence ...................................................................................................................................................................................................... 5  
2.5 Post-M&A ........................................................................................................................................................................................................ 6  
2.6 M&A risks, failures and solutions ............................................................................................................................................................ 6  
2.7 The integration process ................................................................................................................................................................................. 7  
2.7.1 Post-M&A integration ........................................................................................................................................................................ 8  
2.7.2 The integration process and culture .................................................................................................................................................. 8  
2.7.3 The importance of integration in creating synergy ............................................................................................................................ 9  
2.8 Synergy ........................................................................................................................................................................................................... 11  
2.8.1 Definition and types ............................................................................................................................................................................ 11  
2.8.2 Problems with creating synergy .......................................................................................................................................................... 11  
2.8.3 Solutions to problems with synergy ................................................................................................................................................... 12  
2.8.4 The management of synergy ............................................................................................................................................................. 14  
2.9 Theory summary and reflections ............................................................................................................................................................ 14  
2.10 Research questions .................................................................................................................................................................................. 15  

3 Methodology .............................................................................................................................................................................................................. 16  
3.1 Scientific approach ...................................................................................................................................................................................... 16  

4 Method ......................................................................................................................................................................................................................... 18  
4.1 Research approach ...................................................................................................................................................................................... 18  
4.1.1 Qualitative study .................................................................................................................................................................................. 18  
4.1.2 Induction ................................................................................................................................................................................................... 19  
4.1.3 Confidentiality ..................................................................................................................................................................................... 19  
4.1.4 Case study .................................................................................................................................................................................................. 19  
4.1.5 Data collection .................................................................................................................................................................................... 21  
4.1.6 Data analysis .................................................................................................................................................................................................. 22  
4.1.7 Validity & Reliability ......................................................................................................................................................................... 23  
4.2 Methodological & Method reflections ..................................................................................................................................................... 24  

5 Empirical findings ....................................................................................................................................................................................................... 26  
5.1 Strategy and M&A objectives ................................................................................................................................................................. 26  
5.1.1 General .................................................................................................................................................................................................... 26  
5.1.2 Japan International Inc ..................................................................................................................................................................... 27  
5.1.3 US International Inc ............................................................................................................................................................................. 28  
5.1.4 Germany International Inc ................................................................................................................................................................. 28  
5.2 Synergy ........................................................................................................................................................................................................... 30  
5.2.1 Definitions and types of synergy .......................................................................................................................................................... 30  
5.2.2 Time frame for creating and realizing synergy ................................................................................................................................... 30  
5.2.3 Issue when creating and realizing synergy ........................................................................................................................................ 31
5.2.4 The management of synergy .................................................................31
5.2.5 Japan International Inc ........................................................................32
5.2.6 US International Inc ...........................................................................32
5.2.7 Germany International Inc ....................................................................34
5.3 Integration ................................................................................................35
5.3.1 General ...............................................................................................35
5.3.2 Japan International Inc ........................................................................36
5.3.3 US International Inc ...........................................................................37
5.3.4 Germany International Inc ....................................................................38
5.4 Cross-border/culture ................................................................................40
5.4.1 Japan International Inc ........................................................................41
5.4.2 US International Inc ...........................................................................41
5.4.3 Germany International Inc ....................................................................42

6 Analysis .....................................................................................................43
6.1 Strategy and M&A objectives .................................................................43
6.2 Synergy ..................................................................................................44
6.3 Integration ...............................................................................................46
6.4 Cross-border/Culture .............................................................................49

7 Conclusion ..............................................................................................51

8 End Discussion ........................................................................................52
8.1 Discussion ..............................................................................................52
8.2 Reflection and Contribution ..................................................................53
8.3 Further studies ........................................................................................53

References ..................................................................................................55

Appendices
Appendix 1 - Interview guide .....................................................................58

Figures
Figure 1 Three focal points of post-merger integration (Habeck et al., 2000, p.12) 10
Figure 2 The process of realizing synergistic gain (Gaughan, 2002, p. 120) ... 13
Figure 3 Types of design for case studies (Yin, 2003, p.40) modified by the authors .................................................................20
Figure 4 Components of data analysis: interactive model (Huberman & Miles, 1994, p.12) .................................................................23

Tables
Table 1 An overview of the interviews ..........................................................22
1 Introduction

This first chapter will introduce the research subject in a background section which then is followed by a problem discussion that will lead to the purpose of this thesis.

1.1 Background

A company has several options to choose from when it comes to growth strategies. One option is to grow organically by increasing sales personnel, new product developments and by expanding into new geographical areas. Alternative options such as inorganic growth are external revenue growth which is for example strategic alliances, joint ventures and franchising. Another option is to merge and acquire (M&A) which is an inorganic example of how a company can grow (Sherman, 2005). According to Lees (2003) and Sudarsanam (1995) M&As are mainly about growth. Organic or internal growth is most often a slow process and M&As are one option that will increase the growth process. With an M&A deal the company can get instant access to new markets, technology and operations can be made more efficiently.

There are several possible motives or reasons why a company chooses to grow through an M&A. The most common motive is to create synergy but other motives are diversification, improved management, market power or tax motives (DePhamphilis, 2005; Gaughan, 2002). According to Johnson and Scholes (1997) M&As are a fast way of entering new areas of markets or products. It can also be a way to gain competence or resources that the company is missing. Market knowledge is also a major cause to why companies choose M&As as way to international development. Another reason when two companies freely M&A is that they are active in their search for benefits arising from synergies.

M&As have been around for 100 years and have experienced waves of popularity. There have been two M&A booms, one in the late 80’s and the other one in the late 90’s, but there is no proper explanation how these waves were triggered (Sudarsanam, 1995; UNCTD, 2000). According to the Economist (2006) we are now in a third M&A boom much like the previous ones because in 2006 the record in 2000 of $3.33trillions in value of M&A deals was broken. These facts show that M&As are a contemporary issue that today affects many companies and the more common M&As become the more important it becomes to establish successful M&A procedures.

M&As have become increasingly international. This increase can perhaps be contributed to some major economic forces than has come into play in recent years, such as the European Union’s single market, the globalisation of the marketplace and the increasing global competition. Many companies have realized they need to go global in trying to maintain a competitive edge. Another important issue that has had an impact is that barriers to trade have been reduced. Cross-border M&A’s have the same problem as domestic ones but to a higher degree because of the unfamiliarity in each other’s environment and culture (Sudarsanam, 1995). What effect does this have on a company that M&A in a foreign country? As cross-border M&As becomes increasingly popular it becomes more and more important to look at M&As in an international perspective.
1.2 Problem discussion

First of all there is a need to define the concept of M&A. In a merger the two companies shareholders remain as joint owners and the two companies combine their resources to achieve common goals (Sudarsanam, 2003). The two companies become a new legal entity while in an acquisition one of the companies take control of the other firm’s assets (Buckley & Ghauri, 2002). According to a publication by UNCTAD (2000) the phrase “mergers and acquisitions” essentially mean acquisitions because even M&A deals that are supposed to be mergers are in reality acquisitions where one company controls the other one. In 2000 only 3% of cross-border mergers and acquisitions were actually mergers (cited in Buckley & Ghauri, 2002). Sudarsanam (2003) defines M&As as when two companies are combined to achieve certain strategic and business objectives and in this thesis M&As will be defined as such. We have chosen this definition because it covers many forms of both mergers and acquisitions.

The most important aspect for most of the firms lies within the frames of the synergetic effects that will be a result of the M&A. Synergy represents the additional value that is created by merging two firms together (Lees, 2003; Gaughan, 2002). One way of creating synergy is when decreases in per-unit costs results from an increase in the size or scale of a company, so called economies of scale (Gaughan, 2002). It is normally used as a tool for raising capital to an M&A. According to Seth (1990) synergy and value creation is synonymous. Synergy can be an unclear word which some might use as a synonym for cost cutting but it also include positive aspects of the merger such as growth aspects such as knowledge sharing (Haberg, et al. 2000). A synergy can be to merge or acquire a company that has access to a new geographic market or access to a new customer segment allowing the acquiring company to reach those new markets and segments at a faster pace and at a lower cost (Ficery, Herd & Pursche, 2007). In this thesis synergy will be defined as the extra value created by the M&A that cannot be contributed to the value of the two separate companies. We have chosen this because it covers several definitions from others researches and this definition will be the base for comparison with the results from our case study.

Synergy might be one of the reasons for an M&A deal but in a survey by A.T.Kearney in 1998/99 it was found that half of the companies failed to attain this value creation and instead destroyed value (cited in Habeck, Kröger & Träm, (2000). Lees (2003) points out that value destruction is an unanswered question when it comes to M&A. Some blame it on paying too much for an M&A deal or overvaluing the synergy effects while most blame it on the integration process and the fact that those are responsible for the implementation are often not involved in the previous stages before the deal is made. According to Shill, Mann, Ficery & Pursche (2005) M&As have been practised for a long time already and most companies today already have M&A and post-M&A experience but companies are still having problems capturing value and realizing synergy. What problems are there when trying to create and realize synergy?

Many researchers has pointed out how crucial the integration is when creating synergy (Shaver, 2006) and the integration process of the post-M&A phase can be the riskiest in M&A deal but it is also most often the key to success (Habeck, et al. 2000). According to Hitt, Harrison and Ireland (2001) integration is a necessity if synergy is going to be created. What is it in the integration process that makes it so important when creating synergy? What does the management do in the post-M&A phase to actually create and realize synergy?
These are practical issues experienced by the management of companies that after the M&A deal has to create and realize the synergies that they had in mind when they went through with the M&A. We talk about synergy creation and realization because synergy does not just happen when two companies M&A. It takes managerial action to actually make the expected synergies happen. There is plenty of literature in the area of M&A and synergy but with this report we want to contribute to the management of companies that are active in the global market and facilitate the process for creating and realizing synergy in M&As. In particular this paper looks at the situation from the acquiring company’s view in the M&A process. Therefore the research done in this thesis will focus on the management’s problems with creating and realizing expected synergy effects in cross-border M&As.

1.3 Purpose

The purpose of this thesis is to analyse how the management of a company create and realize synergies in the post-M&A process of a cross-border M&A.
2 Frame of reference

This chapter presents our frame of reference which is the theoretical base on which our research is conducted on. The definitions of M&As are discussed as well as the motives. Then the focus of this research is discussed which is synergy and especially in a cross-border situation. At the end our research question that were developed with the theoretical framework in mind are presented and they will help to answer the purpose of the thesis.

2.1 What are M&As?

A merger is when two companies come together into one (Sherman, 2005). In a merger the two companies shareholders remain as joint owners and the two companies combine their resources to achieve common goals. The two companies become a new legal entity (Buckley & Ghauri, 2002) while in an acquisition one of the companies take control of the other firm’s assets. The shareholders of the acquired firm cease to be the owners and the acquired firm becomes a subsidiary of the acquiring firm (Sudarsanam, 2003). An acquisition is not only the purchase of a company but can also be the purchase of a specific plant or division or any another asset (Sherman, 2005). Acquiring firms holds its money and identity while the acquired firm loses all its assets and liabilities, which finishes its activity as a different business entity. The concept is also related to the idea of consolidation (Ross, Westerfield & Jaffe, 2005). An example of this is when Proctor & Gamble acquired The Gillette Company in 2005 reason being they wanted to extend into the consumer product industry (Sherman, 2005). Ross et al. (2005) further stresses that the acquisitions normally have two main objectives; it is acquisition of stock or assets. The main objective buying stocks is to purchase the firm’s voting paying cash, shares of stocks, or other securities. By acquiring other firms’ assets the acquiring company can avoid the potential problem of facing the minority shareholders that can happen in an acquisition of stock.

A lot of the times people tend to use the terms mergers and acquisitions interchangeably. This does not pose a problem and it is not very important to separate the distinction between a merger and an acquisition because the result can most often be considered the same. Two separate companies with different owners that are afterwards seen as one or operating as one with shared visions (Sherman, 2005). For this thesis it is not very important to separate the two expressions since the focus will be on how the companies create and realize synergy, and therefore as was stated in the problem discussion we will use Sudarsanam’s (2003) definition; M&A is when two companies are combined to achieve certain strategic and business objectives.

2.2 Objectives and motives of M&A

There are two perspectives for understanding the objectives the companies have for starting an M&A: the maximization perspective of shareholders’ wealth and the managerial perspective. In the first one, according to the shareholders’ wealth maximisation perspective, the firm’s decision to M&A with another company is based on the fact that companies look for the maximisation of the wealth of the shareholders. The maximisation of the value of the shareholder takes place when the net present value of the investment is positive. The second perspective is the managerial perspective for conducting an M&A. These can be varied such as; growth reasons, to use previous underemployed abilities and skills, risk diversification and to evade being the ones being taken over (Sudarsanam, 1995).
2.3 Cross-border M&A

Cross-border M&As have been increasing rapidly and accounted for 40% of the amount of M&A activity in 1999 and that number is doubled since 1998 (Hitt et al. 2001). Cross-border M&As are becoming a key strategic tool for corporate growth and as with a domestic M&A their main purpose are normally to create additional value. Hitt et al. (2001) describe five reasons why a company chooses to do a cross-border M&A; increased market power, overcoming entry barriers, the cost of new product development, increased speed to market and increased diversification. Sudarsanam (1995) sees a number of reasons why companies does cross-border M&As such as; growth orientation in order to extend market and achieve economies of scale, access to inputs such as raw material, technology or labour, exploit unique advantages such as a brand, reputation, design, production and management capabilities, defensive by diversifying products and markets to reduce earning volatility, response to client needs by providing overseas services for domestic clients and opportunism by exploiting temporarily advantages.

According to Hitt et al. (2001) in order for the cross-border M&A to be effective it is important to pinpoint the synergies that are expected before the deal. It is also important to understand one’s company status with respect of geographic and product diversification. Companies should study previous cross-border M&As in their industry to learn from their experience. A global mindset needs to be developed among the employees. It is also important to identify the reasons for wanting to do a cross-border M&A and evaluate strategic alternatives. Sudarsanam (1995) believes there are differences in domestic and cross-border M&As such as cultural and environmental differences but also corporate organisation, law and accounting rules differences and managers need to take these into consideration.

2.4 Due diligence

Due diligence has throughout the recent years developed into a very familiar term and important face in an M&A process. During the due diligence work the acquiring company or the advisers have the responsibility to show forth every aspect of the target company’s strengths and weaknesses in order to verify for them that nothing is missing and enabling a deep and unbiased analysis. Enlighten different problems and other obstacles that could potentially yield an unsuccessful M&A so that the acquiring company does not only find negative synergies. Different areas to acknowledge are unique for each M&A yet some are usually of more importance like: confirming that the object has superior title to its materials, acknowledge intangible and tangible assets rights, ensure that the change of ownership will not have a counter effect on the business. Also confirming that licenses, contracts and applicable laws so that no negative surprises will occur later in the post-M&A process (Whalley & Semler, 2000).

According to Whalley and Semler (2000) there are three common risks when acquiring another business. The first one is that you simplify the process and only focusing on making a profit-making M&A. An M&A is usually much broader and involves for example to gaining access to new markets, acquisition of otherwise unavailable technology, or a strengthening of a competitive position etc. Focusing only on making a profit-making M&A would retaliate back and consequently the buyer would fall short of the initial objectives from the acquisition.
Secondly it is of great importance that the acquired company will be able to continue as a strong company after the acquisition. This risk is most present when the M&A is focused on acquiring assets and if the legal entity will alter consequently assignments, business contracts, and other factors that operate the business will also change. However it also present in other types of M&A where suppliers or customer have the right to terminate contracts or regulatory authorities can withhold business licenses and consequently harm the new organization (Whalley & Semler, 2000).

Thirdly the acquiring companies need to apply strong leader abilities and manage to control and integrate the other company within the new organization. Further it is also important to protect the target company’s goodwill in order to satisfy employees. Otherwise there is always a risk that you will not get the whole organization standing behind the deal and certain people will not agree upon the new ways of working or management styles. Hence in the long run employees not standing behind the deal can infect the organization and in the end spread bad morale among the work force. Externally also suppliers and other stakeholders might be reluctant to support the company when new owners have arrived (Whalley & Semler, 2000).

2.5 Post-M&A

In the middle of the 1980s researcher discovered that it is relevant to understand the organizational consequences of the M&A’s. Although some researchers had pointed to the significance of the period following the initial M&A much earlier this had not been considered before. More strategically oriented studies thereafter concentrated on issues such as how the management can bring about the anticipated or other potential synergistic benefits create value, transfer knowledge or capabilities from one organization to another or enhance learning (Vaara, 2003).

Integrating two firms into one single unit is the primary difficulty in the M&A process (Shrivastava, 1986). It can be argued that changes and issues in the post-M&A process differ from case to case. What can be seen as a problem for one firm might even be an opportunity for another. However, the post-M&A process involve taking care of earlier experiences of the two companies which is a complicated procedure (Haspeslagh & Jemison, 1991). It is complex since it involves several procedures such as creating synergy through growth or diversification, taking care of tax motives and at the same time keeping a good economic result (Gaughan, 2002). M&A’s entails that the organizational structure will be changed in different ways. The distribution of work and the tasks change, and might lead to difficulties for the employees to relate them to the new situation (Vaara, 2003).

As discovered by Larsson and Finkelstein (1999) synergy realization is to a large extent dependent on organizational integration, and in most cases the acquiring firm is in possession of the post-M&A decisions and the learning processes that takes place (Zollo & Singh, 2004). Zollo and Singh (2004) state that economic benefits will be offered when integrating the two organizations, the integration does not have to be total, though it have to be carried through to some extent.

2.6 M&A risks, failures and solutions

Many M&As has instead of created value ended up destroying shareholder value (Habeck, Kröger & Träm, 2000; Hitt et al. 2001). Hitt et al. (2001) believe that there are certain areas where problems regularly occur. Many companies does not have a clear vision for their
M&A, they pay too little attention to leadership, focus too much on cost synergies, they neglect the importance of getting employees aboard and the cultural issues, there is a lack in the communication and managers manage the risk very poorly. A.T.Kearney’s Global post-M&A Integration survey (cited in Habeck et al. 2000) found that 58% of M&A failed to reach the value goals. The survey also pointed out certain issues that they saw could be contributed as a part of the success of some M&A transactions. The successful companies had relied on experienced management in M&A situations; they were business that had a strong core business and deep financial resources; they had also acquired related business and they had avoided to merge with an equal. According to Hitt et al. (2001) it can be said that the M&A success is influenced by the effectiveness of the integration of the two companies’ capabilities and processes and the level of synergy created by the integration.

2.7 The integration process

Value is not created until after the integration (Haspeslagh et al., 1991). Capabilities are transferred and people from both organisations collaborate to create the expected benefits or to discover others. How do we take care of the opportunity, bringing the both firms’ strength together and create synergy? That is what we want to figure out by analysing the integration process in our case study and compare it with theory and the following part describes the integration process through what different researcher has stated within in this area.

In choosing between fully integrating the new company into the large organisation, aiming at a looser bond, financial and human factors seem to be in conflict again. The fuller the integration, the higher the chance that the synergy aimed at will develop, give notice of financial success. At the same time, a higher degree of change is expected to lead to more concern and discomfort among the employees, threatening financial goal realization. The key for management to succeed after the M&A is to minimize changes for people, apart from the changes in the systems necessary for administrative and financial control (Bijlsma-Frankema, 2004).

There is always a conflict between the newly acquired company and the parent corporation. The changes in existing policies and procedures must be handled carefully. It is important to explain the changes for the employees before they are implemented. Sufficient time must then be allowed for a reaction and feedback. In order to minimise the worries about changes in the existing policies and procedures, managers must discuss fully the reasons behind the corporation’s policies and procedures. It is not necessary that all of the newly acquired employees agree with the policies, but they should understand what they are (Huang & Kleiner, 2004).

M&A’s make the communication channels grow longer due to more people being involved. Moreover, due to its larger size, some employees may unintentionally get left out of the loop. Therefore, trying to maintain closer-than-usual contact is very important (Huang et al., 2004). An M&A transaction is a setting for great uncertainty, frequent rumours, and constant decisions that change the scene. Communication has played one of the key roles of successful integration. Clear and constant communication throughout the integration process can provide decisive answers and dispel rumours. Open communication is essential. Open communications clarify expectations and reduce ambiguity (Purnam & Srikanth., 2007). Unstructured communication, like frequent face-to-face interactions, avoids the disruptive consequences of administrative and cultural integration while also enabling high levels of coordination (Purnam et al., 2007).
2.7.1 Post-M&A integration

The biggest problem in M&As is to integrate the two companies into a single unit. This can be done in several different stages. The most common level to begin with is to combine the accounting systems of the firms and also to establish a common legal platform. Next step is the integration of physical assets, product lines, production systems and technologies. Managing cultural differences and diverse managerial viewpoints are often considered to be the most critical part. It is not always all these types of integration that are achieved or even necessary (Shrisvastava, 2006).

A common problem in integrating M&As is that they operate through departments that are specialized in different areas such as production, marketing, accounting and finance. There are three main procedures of integration. First action is to coordinate activities, the second is to monitor and control the separate departments in order to attain high quality and the third action is to create common goals for the departments (Shrisvastava, 2006).

The organizational integration is influenced by several factors which makes it complex. A changing market and organizational technological environments create uncertainties in the M&A. This can be done by assigning specific tasks to functional groups like sales, purchasing, production, accounting and R&D. These groups need to be integrated with each other to get a single business unit in the end. Another important aspect is the nature of the technology the firms uses for production, because different production technologies require special types of human skills. Integration is finally also an aspect of organizational size. A large firm has a greater need for integration since they involve several units to be coordinated (Shrisvastava, 2006).

Shrisvastava (2006) discusses three different types of procedures to achieve a successful integration after the M&A; procedural integration, physical integration and managerial and socio cultural integration. Procedural integration engage combining operating activities, management control and strategic planning levels. The intention is to standardize procedures to improve communication between the companies. The physical integration entails the consolidation of product lines, production technologies, R&D projects, plant and equipment and real estate assets. This means that the firm’s assets are combined to create synergistic effects. Finally the socio cultural integration is the integration of decision making on various levels and the fact that managers tend to hold their organization and its environment. That is assumptions, information and mental maps managers use in decision making.

2.7.2 The integration process and culture

In the context of most M&A, integration means the successful imposition of the existing culture of the acquirer or dominant merger partner on the other rather than the fusion or blending of the two (Gertsen, Söderberg & Torp, 1998). Another big part of making M&A’s work is all about successfully combining corporate cultures. This is the biggest sticking point and the major reason many M&A create little or no lasting value for shareholders. Success in M&As is more achievable if the target businesses fit those of the buyers as to business concepts, markets principle and culturally in terms of assignment of responsibilities and motivation of its people (Huang et al., 2004).

The culture of an organization defines appropriate behavior, bond and motivates individuals and asserts solutions where there is ambiguity. The corporate culture is the culture inside the organization. It is the way a company processes information, its internal
relations and values (Hampden-Turner, 1990). For simplification, we refer to corporate culture as culture. There are several different factors involved in the concept of culture, such as in which industry the company operates, its geographic location, historical events, the employee’s personalities and their patterns of interaction (Sadir & Lees, 2001). The culture also covers emotional, behavioral and cognitive elements of total psychological functioning of the members of the group (Schein, 2004).

Culture is complex and hard to control since it is founded in the past and rely on basic assumptions. This makes it impossible to manage the process of cultural integration in the same way as in manufacturing and distribution processes. Consequently, doing an M&A of two companies is a complicated task. There is often not given enough attention in this which might be a reason to integration problems. Managing the culture integration process guides the incorporation in the right direction. Members in this process adopt each other’s different way of thinking and acting. The result will be a new culture characterized by the interaction of the two separate cultures and the desired degree of synchronization (Pribilla, 2002 cited in Picot, 2002).

Pribilla (2002) further stresses that there are four different things that the cultural integration is dependent upon; dominating behavior of the stronger company, attitudes of employees and managers toward the M&A, desired degree of synchronization and degree of cultural freedom conferred upon the M&A. Successful cultural integration gives, the stronger the culture becomes, less efforts from management and control in the future is needed. Furthermore, if the integration has preceded well employees at various levels know what is expected of them in the majority of the situations as they share the same core values, goals and directions (cited in Picot, 2002).

When companies from different countries are involved in an M&A, there is a great chance that they will experience cultural conflicts and clashes. Besides, culture can be defined not only at the national but also at the organizational level (Hampden-Turner, 1990). The relative weight that is placed on the issue of national versus organizational cultures as a barrier to integration will depend upon the degree to which national culture, governments and ideologies are considered to influence and shape organizational behaviour and their members’ lives (Gertsen et al., 1998).

### 2.7.3 The importance of integration in creating synergy

Since M&As becomes more common in order for companies to differentiate themselves from competitors the success of the deal becomes more dependent on the post-M&A stages; especially the integration process where the search for value creation is underappreciated (Chanmungam, Shill, Mann, Ficery & Pursche, 2005). Habeck et al. (2000) agrees that the integration process of the post-M&A phase is most often the key to success. They have found three areas (see figure 1) that are essential during the post-M&A process integration. Which is that all levels of the organisation need to buy-in to the deal, for people to support the vision there needs to be a sense of orientation and people need to be well-informed and expectations need to be managed directly and communicated throughout the process.
Habeck, et al. (2000) has developed “seven rules for M&A success”. These rules are developed from areas that companies that M&A has problem with. The seven rules for a successful post-M&A integration are more like guidelines than rules in order to increase the chances for an effective integration with value creation to shareholders. The first rule is vision; a combined vision is essential for the buy-in and to manage expectations. Many companies look at the fit between the companies first before they have a clear vision of what it is they want to achieve. The second rule is leadership; it is important to apply and execute the vision accurately. Not being able to appoint a management team as soon as possible will lead to uncertainty. The third rule is growth; synergies are not just cost savings but also market-oriented upside-opportunities. The fourth rule is early-wins; to beat peoples uncertainties about the M&A achieving some early results are used to gain reassurance, which helps with the buy-in and motivation to keep working towards the long-term goals. The fifth rule is cultural differences; it is important to consider the different cultures and how best to deal with them. The sixth rule is communication; without adequate communication it is hard to get employees committed to the M&A, which is important because it is how well managers get others to believe in their vision and then bring it about. The seventh and last rule is risk management; M&As are risky but it is important to proactively face risk and risk management is one way of doing this hat can lead to long-term growth.

According to Hitt et al. (2001) the M&As need to be properly integrated to create synergies that will result in competitive advantage and an increase in shareholder value. In the integration process potential problems need to be found and actions need to be taken to prevent integration difficulties. The quicker one act the more likely the integration will be a success. In a post-M&A integration focus should be put on creating value and therefore the activities in the integration process that create most value should be dealt with first. If the company believes the greatest value from the M&A comes from sharing customer information then the activity of integrating the customer information systems should be dealt with first of all (Chanmungam et al., 2005). When integrating two businesses to create synergy they become interdependent and an adverse effect on one business will have a greater effect on the other than when they were separate. This is called the contagion effect. Another effect when integrating two companies are the capacity effect which comes about because to realize synergy the capacity utilization is often increased which leads to a decrease in slack or underused resources. This can be negative because the capacity
constraint can make more difficult to take advantage of positive shocks in the business environment than if the two companies were separate. The contagion and capacity effects mean that even if the M&A is well implemented and is creating synergy the outcomes will not always be superior and this is according to Shaver (2006) the paradox of synergy.

2.8 Synergy

2.8.1 Definition and types

According to Seth (1990) and Gaughan (2002) synergy and value creation is synonymous and synergy is when the value of the M&A exceeds the value of the two separate firms put together. Or as Lees (2003) puts it, synergy represents the additional value that is created by merging to firms together. Synergy is normally used for raising capital to an M&A (Lees, 2003). When paying a premium for synergy the company is paying for an opportunity and companies normally have a hard time identifying and capturing some synergies. According to Habeck, et al. (2000) many use synergy as a synonym for cost cutting and he believes that those companies that has this definition of synergy needs to redefine it to also include positive aspects of the M&A such as growth aspects such as knowledge sharing. A synergy can be to M&A a company that has access to a new geographic market or access to a new customer segment allowing the acquiring company to reach those new markets and segments at a faster pace and at a lower cost (Ficery, Herd & Pursche, 2007). It is important to capture growth synergies as quickly as possible and prioritize area where cost efficiencies can be gained, and in this way synergy is an important part in the successful merger (Habeck et al., 2000). Lees (2003) believes that when two companies do an M&A the balance is disturbed and it becomes disorganised, the energy used on markets and competition is needed to bring order back which will affect the performance of the companies.

Hitt et al. (2001) has divided synergy into three types; financial, operational and managerial synergy. Financial synergy is the present value of the future profits that comes from the M&A. Operational synergy is the ability to create more value from two companies working together than two companies working separately. Managerial synergy is when additional value is created from the decision makers’ ability to integrate the two companies to create a competitive advantage. This can be compared to Larsson’s (1990) four synergy typologies; market power, operational, management and financial synergy. Market power synergy is when a company has merged into a monopoly sized company that due to the increased bargaining power can charge customers more or force suppliers to charge less. Operational synergy is when the company due to increased scale and experience can lower production and marketing costs. Management synergy is when the company benefits from the sharing of the two separate companies complementary or supplementary management techniques and talents. Financial synergy is about reducing risk and lowering the cost of obtaining capital.

2.8.2 Problems with creating synergy

Value creation is a management goal but the fact is that often value creation is not realized and often value might even be destroyed. A.T.Kearney performed in 1998/1999 a global survey of 115 transactions and it turned out that 58 percent failed to attain the value goals set by the management and more than half of the M&As value were destroyed (A.T.Kearney cited in Habeck et al. 2000).
M&A’s have been around for quite some time now and companies and managers should have experience in dealing with them by now. So why are they still not able to create synergies? According to Chanmugam et al. (2005) it is because M&A’s has become a mature utility and companies find it difficult to differentiate themselves with their bids since they calculate synergies similarly and therefore they start to overestimate synergies to get a winning bid. Ficery, et al. (2007) points out that even though many synergies go unrealized because of paying too much for the M&A deal, others occur because of a lack of understanding what synergy are and how they can be attained. They have identified six problems regarding synergies that should be avoided; defining synergies too narrowly or too badly, missing the window of opportunity, incorrect or insufficient use of incentives, not having the right people involved in synergy capture, mismatch between culture and systems and using the wrong processes. Another reason why value might be destroyed is that most companies want to integrate the two companies as quickly as possible and does so by integration all the functions with no regard for which will bring the most value, instead of focusing on value creating activities first (Chanmungam, et al. 2005). Hitt et al. (2001) point out that value can be destroyed when trying to create synergy because of the hidden costs to the M&A such as cultural problems and inefficient integration processes. Creating synergy also comes with opportunity costs since when trying to capture synergies managers can be diverted from the core of the business and neglect initiatives that might create real benefits.

2.8.3 Solutions to problems with synergy

Hitt et al. (2001) believes that there are four foundations in the creation of synergy called strategic fit, organisational fit, managerial actions and value creation. When all four foundations exist the likelihood of creating synergy is substantially better. Strategic fit is the match between the two companies’ organisational capabilities. When two companies with similar capabilities and similar strength and weaknesses merge the prospect of creating synergy is reduced. Organisational fit is when the companies are highly compatible, meaning that they have similar management processes, cultures, systems and structure. This makes it easier to share resources, knowledge, skills and effectively communicate. Two companies without organisational fit could find that the integration process will be stifled or prevented. Managerial actions are what managers do in order to realize the different synergies and the benefits they convey. Creating synergy requires an active management that recognises the international issues and other problems connected to the M&A process. Last of the four foundations is value creation which is based on the basic fact that the benefits from the synergy need to exceed the cost of creating and capturing synergy. Costs that are important are the premium paid for the M&A deal, the financing of the M&A deal and the actions needed to integrate the two companies in order to create synergy. Synergy will be no good if the cost of creating it outweigh the value of the synergy.

In a paper by Forstbrook (2007) four key drivers has been reviewed as a guide to how to have a successful cross-border M&A; the need for a clear and compelling strategy, an understanding of markets and their environment, show respect for the new employees and execution. Having a clear and compelling strategy will not only make everyone aware of the reason for the M&A but it will also help in finding a company that provides the best fit and secondly there needs to be an understanding of markets and the environment especially when doing a cross-border deal because if a company fails to understand the market it might make unrealistic assumptions about potential synergies which can in the end be costly. In a cross-border M&A more than anything else the key asset is people and employees from the merging companies need to be respect because they are the ones that
possess vital knowledge, relationships and capabilities. The last key driver, the execution, should begin as early as possible maybe even before the deal because the integration efforts in an M&A are easily underestimated.

Chanmugam et al. (2005) has through their work found an explicit value-capture strategy they named the lifecycle approach which managers have tried to achieve through four key drivers. The first is to treat M&A as a holistic process, to treat the M&A as a whole with interdependent parts instead of separate parts. This leads to a more successful integration process compared with one where the pre-deal is treated as something separate to the post-acquisition phase. The second key driver focus on value creation not just integration which means that companies should not just integrate the two companies as quickly as possible but they should prioritize the integration activities according to the value they create. The third is to accelerate M&A planning and execution and to do this they have developed an approach called the intelligent clean room. This is a concept that allows a third party to analyse the deal and start the integration planning even before a deal is made. The fourth key driver is to use culture as a value creation tool. It is found that even managers that identify cultural issues beforehand have a hard time incorporating these issues into the integration process. Successful acquires should see culture as a tool by assessing what impact cultural differences could have on the M&A process, avoiding the common pitfalls and proactively use culture to create value.

Gaughan (2002) has compiled a model (see figure 2) of the process of realizing synergistic gains. As a start management need to carefully deal with the strategic planning since the more well planned the M&A is the better chance to success. Secondly the management needs to integrate the two companies into one. In the end synergy can be separated into revenue enhancing synergies or cost cutting synergies. During this process the management team needs to be aware that competitors might respond in different ways to the M&A deal.

Figure 2 The process of realizing synergistic gain (Gaughan, 2002, p. 120)
2.8.4 The management of synergy

The actual synergy creation is considered to be the managers’ job. Creating synergy could require activities such as combining similar processes, coordinating business units using common resources, centralizing support activities and solving business unit conflict. Managers often underestimate these problems connected with the integration and often overlooked is the problem of peoples acceptance of their required actions needed in the integration. In the past synergy creating has been more likely when managers have spent time and energy helping other members creating synergy, setting aside a team responsible for the actions in connection with creating synergy, forming a vision and direction in order to communicate to everyone how transactions will create synergy and form the behaviour of the organisational members that are expected in order to create synergy (Hitt, et al. 2001).

Hitt, et al. (2001) has developed some managerial guidelines when it comes to creating synergy. Managers need to recognise that synergy is needed for the M&A to be successful. Occurring events in an industry might affect the M&A success and managers need to accept this and analyse this influence. Creating synergy to increase firm value should be evaluated relative to other opportunities and alternatives. Before the management decide on an M&A strategy other strategies need to be evaluated that could lead to the same business goals. Synergy creation and the actions required to realize synergy need to be talked about before the transaction takes place so that everyone knows what is expected and required. The most successful M&As have happened when all four foundations (strategic fit, organisational fit, managerial actions and value creation) of synergy creation have been present. The management team needs to be committed and actively manage processes in order to create synergy because the term synergy is vague and does not happen by chance. Synergy can be created by redundancies but the management team needs to carefully consider this since knowledge is a new way of competitive advantages and redundancies might not be good for the long term.

2.9 Theory summary and reflections

The theories have been chosen in order to enable us to answer the purpose on how the management can create and realize synergy in the post-phase of a cross-border M&A. There are theories to give an overview and necessary background data to the research such as definition of M&A, the objectives, the post-M&A phase and cultural issues. These are all important theories but in order to answer the research questions and ultimately the purpose mainly the theories on synergy and integration will be put to practice. To begin with Gaughan (2002) has created a model that gives as an overview of the process of realizing synergistic gains. Another model is the model by Habeck et al. (2000), on the three important areas of post-M&A integration, as it identifies that everyone in the companies need to buy-in to the deal, they need to feel that there is a sense of and that people’s expectations need to be managed. Then there are their seven rules for a successful M&A. These seven rules emphasise common problem areas in M&As and recommend actions to be taken in order to be more successful.

Further theories enlightened are Hitt’s, et al. (2001) four foundations of synergy creation that most of all promote that there needs to be a strategically and organisational fit. Forstbrook’s (2007) four key drivers and Chanmugam’s et al. (2005) value-capture strategy are more theories on how to be more successful in creating synergy. Finally there is Hitt’s et al. (2001) managerial guideline that takes up the issue on the importance of good
management when it comes to M&As and the creation of synergy. These theories are all relevant when it comes to analysing our empirical data and they will be essential for reaching an answer to our research questions on the creation and realization of synergy.

2.10 Research questions

- Why does the management of a company choose to do a cross-border M&A?
- How does the management team of a company work in order to be able to create and realize potential synergies from the cross-border M&A?
3 Methodology

The underlying concept of this chapter is to explain and motivate our chosen scientific approach in our thesis. Emphasising on how we have understood the complexity in conducting social science and how we will seek to utilize it during our analysis and data interpretation.

3.1 Scientific approach

When conducting research it is of great importance that the researcher explains in what way they interpret the world. The researcher experience and how the reality is interpreted and perceived will yield the scientific approach which will be chosen. The research within social science disciplines would benefit if researcher would focus more on trying to explain and more explicit show on what type of believes they bring to their study (Morgan & Smircich, 1980). Hence in the following section we will explain how we as researchers interpret the world and the most pragmatic way of gaining and processing data according to our purpose.

In any research area one can wonder what the researcher really could contribute with to the chosen research area. When conducting our research in Sweden International Inc we have put ourselves in the area of carrying out a social science. Sharing information and gather empirical data and then distribute it to others and consequently spread knowledge is a process often simplified and the issues concerning this should be stated (Morgan & Smircich, 1980). Questions like what is the nature of knowledge and in what way are the researcher handling epistemologies and ontological stands to find knowledge is important because it ad credibility to the research. According to Burrell & Morgan (1979) every researcher is in some way carrying different interrelated assumptions concerning ontological, epistemological issues, cited in Morgan & Smith (1980).

Along the continuum of different methodological viewpoints on social science we have different solutions to how a researcher believes he could find knowledge. In one end we have an objective foundation and an ontological understanding that the reality is a structure very rigid and very concrete, the researcher is a responder who gain knowledge through responding to findings and data. Reality is something that can be observed and processed from the “outside”. In the other side of the continuum we have a subjective foundation and researchers who believes that reality is something that is highly subjective, the only truth is the one which is present in your own mind. Knowledge is gained and processed through empirical experience which are based on the researchers own pre-understandings and awareness. Reality is something that you live in and cannot be observed from the outside (Morgan & Smircich 1980).

This scale is a useful base for thinking and clarifying different assumptions concerning research in social science. Every researcher is in some way interpreting data for gaining knowledge. If you are in the objective end you believe that this interpretation could be made without using your personal experience and if you are in the subjective end you believe that the interpretation is only made inside yourself and consequently highly subjective. However these are two very radical epistemological opposite standpoints and most researchers are somewhere in-between. We would like to emphasize that when conducting our research we are leaning towards the subjective end of the continuum and by using the strength of enabling use of previous knowledge and interpreting data we will lay a solid ground for answering our purpose. However we determinedly want to argue that we use the word leaning towards and we do not think that any researcher can belong completely to any of the two mentioned sciences.
When reading and analyzing a text the phrase: “that you have to read between the lines to understand the meaning” often is applied. The same goes for any social interaction and hence any conducted social research where you as a person interpret and process the settings and from which you seek to come to an understanding. The art of making these interpretations make sense and to fit them in with previous knowledge and to finally end up with a trustworthy conclusion is the foundation for every subjective researcher (Egidus, 1986).

Egidus (2002) continue arguing that every message or situation has to be interpreted because they are not copies from the reality it seeks to explain, they are rather guidelines to a reality explained by our language. We believe that language is our human tool for discussion and gaining mutual understanding, it is also the devise from which reality can show forth in experience, therefore addressing the issue that we conducting a social science one need to interpret and process many settings for ending up with a trustworthy conclusion.

Either if you conduct a qualitative study or a quantitative study all data has to in the end be interpreted by the researcher. Normally it just happens in different stages. In a qualitative study you usually interpret an interview whereas throughout the discussion you process and interpret sentences, body language and other communication forms and then when you handle the collected data you interpret it during all stages including: Data reduction, data analysis, and conclusion. In the qualitative research normally you interpret data when you have collected it and then the goal will be to from the collected sample draw conclusions to the population. We like to address this issue because when conducting research and during the interpretation process the researchers own believes and experiences are put into to play and therefore an objective research is nearly impossible to do and consequently the idea of finding an absolute truth vanish away and consequently recognizes that every researcher has his own set of skills and experience which yields that an interpretation could vary among researcher (cited in Egidus, 2002).

The meaning for a researcher could differ a lot but in the end one could say that every researcher are seeking to contribute to their chosen subject, an contribution is in the end done by sharing new knowledge. Our knowledge will be processed with our mentioned subjective mindset and consequently yield in some way subjective results however the subjectivity is not based on previous opinions concerning our research area, the subjectivity is based on the fact that we process and interpret data using previous knowledge when processing and analyzing our collected data.

So the answer to if knowledge is based on an ongoing process where you constantly interpret the context using personal experience, does it not mean that your study is subjective? The answer is yes, the strengths in a subjective social science are that it recognizes the fact that qualitative research can not be made in a totally objective manner. These mentioned combined issues have sculptured our chosen approach and when the subjective social science state that every people interpret the same context in different ways and that ever interpretation is unique (Odman 1979 cited in Egidus, 2002). This will work to our advantage and enables us to build enhanced and more sophisticated theories from our research, as we are three persons conducting and interpreting the interviews. And since we are investigating how management realize and create synergy effects in a cross-border post-M&A situation it is great importance that we interpret and seeks to gain a deeper understanding in our research.
4 Method

Under our method heading we start with a discussion which seeks to combine our chosen scientific standpoint with our chosen method. Hence the research approach section only briefly covers and explains different methods and links it to our purpose. The following headings elaborate each chosen method part in-depth.

4.1 Research approach

When deciding your approach to different research you have a lot of ways to choose from. A thorough preparation plan where reasoning and careful analysis should be conducted before the actual study begins. Conducting a clear and very useful outline will eventually save valuable resources such as both time and money. Perhaps the preparation work is the most important because not choosing an efficient and correct entrance will eventually produce a consequence of skewed or biased results (Saunders et al 2003). Two common approaches to choose from when collecting research data are either to conduct a quantitative study where large data is collecting for a generalization purpose, or to conduct a qualitative study which include some more empirical investigations where you investigate your settings or assignment from real life experience and consequently search for an understanding (Saunders et al, 2003). Hence in order to fulfill our purpose of this thesis we have chosen to conduct a qualitative study where we conduct a case study at Sweden International Inc as Qualitative data collection is a process of interpreting data we will combine it with a qualitative study (Ezzy, 2002).

We will conduct semi-structured interviews at the concerned company. We think that building up a relationship and being able to construct a mutual trust and respect with our chosen interviewee is of significant importance in order to gain the necessary data access. Answers to questions like how should we have used the existing strengths in our company to finalize synergies and why have we not done so, will hopefully help us in gaining the understanding that the research questions demands. The chosen method is in order to gain a more thoroughly understanding which is necessary to answer our purpose. Further we will use an inductive approach where we are building theory. These theories will be built from our analysis between the theoretical framework and the collected empirical data.

4.1.1 Qualitative study

As one of our goals is to contribute to Sweden International Inc in how they could facilitate the process of creating and realizing synergies, the qualitative approach is suitable as it facilitate in creating a profound understanding. The argumentation can be strengthen from that a wide variety of authors have highlighted the contribution that qualitative research can make to research, suggesting that researchers using qualitative techniques can provide rich insights into the issues that interest both management practitioners and researchers (Cassel, 2006).

Holme and Solvang argue that there is no correct path or guideline to follow when conducting a qualitative study, which our study has proven, where we have constantly developed and improved both our initial outline and questionnaire (cited in Ezzy, 2002). Furthermore Ezzy (2002), states that theory shaped by qualitative research methods does not generate a final account of the nature of reality. A thoroughly performed qualitative research contributes to the mentioned process by providing theories that are as close to the
“truth” as possible. Hence it is perhaps one of the setbacks with conducting qualitative research, but as we understand the context which we are conducting our thesis in we will add validity to our findings.

We experience daily that information taken out of its context can mean something totally different from what was originally intended (Cassel, 2006). This is a fact that has to be considered when conducting qualitative research. The interpretation and processing of data is something delicate and people who are good at presenting and manipulating data can easily change the original message into almost anything, and as a result researchers miss interpret the actual truth (Cassel, 2006). Thus when conducting a qualitative study with interviews we as researcher have to be aware of that the interviewee probably will customize answers and sharing information which only he thinks are suitable.

Therefore stressing the point that qualitative research engages with the complexity of analyzing human action in terms of meanings and understanding the social complexity surrounding a face-to-face interview is of importance (Ezzy 2002). As mentioned in the scientific part the art of making these interpretations make sense and to fit them in with previous knowledge and to finally end up with a trustworthy conclusion is the foundation for conducting a qualitative research, and therefore an important issue for us to point out.

4.1.2 Induction

Ezzy (2002) argues that theory building mirrors the interpretive processes of everyday life and continues saying that theory building is more a systematic process of interpretation, consequently in line with our chosen strategy. Using induction when conducting research, a small number of samples, in our case interviews, are performed. Instead for using a deductive approach where large samples often are needed for analysis and correlation between variables are searched for (Saunders et al, 2003). Deduction is aiming for searching for rigid truths but when dealing with a social complex environment we believe that such a rigid truth cannot be found and therefore we have an inductive approach in our research.

4.1.3 Confidentiality

Due to the fact that the company that this research is based on has given information that is sensitive they would like to remain unidentified. It is the general impression that reveals too much about the company, though we would like to stress that no data have been neglected in the thesis. Therefore we have addressed the issue of confidentiality. The names of the companies are fictional and the names of the people interviewed have also been fabricated. Some of the detailed information of the companies has also been made more generalized in order to secure the identity of the company.

4.1.4 Case study

A case study may be appropriate in more complex and contextualized objects of research such as management studies (Scholz & Tietje, 2002). The cases involve more than one unit, or object, of analysis. It makes it possible to investigate multiple sources of evidence in subunits (Scholz & Tietje, 2002) which in turn offers several different relevant aspects of the case. The case study approach is most suitable for us because in the real world it is often necessary to understand one thing in order to understand several others. It renders possibilities to unravel complexities of a given situation (Denscombe, 2003) and also to get a richer understanding of the process being studied (Saunders et al, 2006).
Yin (2003) discusses four different types of designs in case studies. These are derived from a 2x2 matrix (see figure 3) and is based on single vs. multiple and one unit or multiple units of analysis. For this thesis the authors have chosen to use the embedded single-case design. The single-case is Sweden International Inc and the multiple-units of analysis constitutes of the three cross-border M&A’s; Japan International Inc, US International Inc and Germany International Inc.

The related purpose of this thesis is the main criterion for the choice of procedure a case study of Sweden International Inc, a large manufacturing company, since it fulfills the requirements of a company that been involved in M&A’s with a series of foreign companies. In the past the company was a subsidiary to another big company, but in 2006 it completed a spin-off and are nowadays an own organization listed on Stockholm Stock Exchange.

We will look into three cross-border M&A’s that Sweden International Inc initiated during 2006. Our intention is to be able to share their experience from these M&As in order to analyze our theoretical findings. The three different companies were; US International Inc, Germany International Inc and Japan International Inc. These cases covered three different geographical areas and embrace Sweden International Inc’s main markets (Mr. A. Andersson, personal communication, 2007-11-06). Our intention with the case study was to recognize the relationships and processes at the company in order to get an in-depth understanding of how companies realize and create synergies in the post-M&A process. It was done in order to understand what needs to be prioritized in the integration process. Further, as mentioned in the purpose, we also wanted to study the cross-border situations which were possible at Sweden International Inc and therefore an important reason why they were chosen. There are several possible methods to collect data during a case study,

![Figure 3 Types of design for case studies (Yin, 2003, p.40) modified by the authors](image-url)
such as questionnaires, interviews and documentary analysis (Brewerton, 2001), which we will go more into in the next section.

4.1.5 Data collection

One of the most important things when sampling, is that the sample relates to the purpose and that the collected data is enough to enable qualitative data analysis (Ezzy 2002). As our purpose with the thesis demands us to contact people with a certain knowledge and understanding on how Sweden International Inc’s strategy is concerning cross-border M&As. We have chosen to contact individuals in the top management team as their combined knowledge would yield the most pragmatic data-base for analyzing. Initially we contacted individuals at Sweden International Inc by telephone where we outlined the nature of our thesis and the contribution we felt that they could contribute with. The interviews are structured in the semi-structured approach which involves a list of themes and questions which is to be covered. These may be asked in a different order from interview to interview. However we consequently worked with our interview guide for improvement and customization before each interview. Though, it is not adequate for this thesis to add the customized versions to the interview guide since the differences are very small. The mentioned process have involved both that we excluded some questions in a few interviews and also consequently added question other. The conversations were audio-recorded and simultaneously noted in-order to enabling even further development of questions during the interview (Saunders et al., 2006). We have chosen this approach because during an interview a researcher could play on the clients’ emotions and scan different body languages which will yield an improved communication and as consequence perhaps get access to more applicable data (Ezzy, 2002). Through a more complex set of languages, body language and mother tongue the communication can evolve (Gibson, 2000).

To start the whole data collection process we decided to conduct an interview with Chief Executive Officer (CEO) Anders Andersson, this in order to get a more holistic understanding about Sweden International Inc’s general strategy concerning M&As. The interview also included questions concerning how Sweden International Inc seeks to create and realize synergies in their M&As. Further to broaden our collected data and knowledge we conducted an interview with the Chief Financial Officer (CFO) Bengt Bengsson. This interview were also structured so that we could get a more holistic understanding, however it concerned and focused on the financial issues in creating and realizing synergies. The last interview structured to get a more holistic understanding were conducted with Sweden International Inc’s Human Resource Manager (HRM), focusing on synergies related to human resources such as knowledge and competencies. To gather a more thorough understanding in each chosen M&A we have interviewed the individual which are in charge of the whole M&A process. As we have chosen to analyze three different M&As: the Japan International Inc case, the Germany International Inc case, and finally the US International Inc Industry case, we have in total conducted six interviews which from data has been gathered. Hence we have laid a solid foundation for analyzing and answering our purpose. Some of the interviews have been conducted in Swedish and other in English, which yields that we have translated the data gathered in the Swedish interviews into English in our empirical findings. See table 1 for an overview of the participants.

In order to successfully gather data from the mentioned individuals we have used four face-to-face interviews and two telephone interviews. The length of the interviews varied between 45 minutes to 1 hour and 15 minutes. We would like to enlighten that there are
some set-backs with conducting a telephone interview such as not being able to establish a personal contact for creating mutual understanding and trust; additionally you cannot read the interviewee’s body language. Both issues could yield that you do not get access to sensitive data (Saunders et al., 2006). However we have not noticed any trust issues, and the fact that we have met 4 out of 6, in face-to-face interviews which we referred to during our telephone interviews will automatically generate a trust base for the participant. The telephone interview have been chosen in order to get access to every concerned position at Sweden International Inc, as their Head office is located in Stockholm and their Operational facility in the town Sweden International Inc and one person were located abroad.

For complementing our collected data we also have used some secondary data, using the company’s home page and annual report.

<table>
<thead>
<tr>
<th>Given identity</th>
<th>Position</th>
<th>Type of data collection</th>
<th>Interview language</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Anders Andersson</td>
<td>CEO</td>
<td>Face-to-face interview</td>
<td>Swedish</td>
<td>2007-11-06</td>
</tr>
<tr>
<td>Mr. Bengt Bengtsson</td>
<td>CFO</td>
<td>Telephone interview</td>
<td>Swedish</td>
<td>2007-11-26</td>
</tr>
<tr>
<td>Mr. Christian Christiansson</td>
<td>HRM</td>
<td>Face-to-face interview</td>
<td>Swedish</td>
<td>2007-12-12</td>
</tr>
<tr>
<td>Mr. David Davidsson</td>
<td>Head of the Japan International Inc. M&amp;A</td>
<td>Face-to-face interview</td>
<td>Swedish</td>
<td>2007-12-05</td>
</tr>
<tr>
<td>Mr. Erik Eriksson</td>
<td>Head of the US International Inc. M&amp;A</td>
<td>Face-to-face interview</td>
<td>English</td>
<td>2007-12-13</td>
</tr>
<tr>
<td>Dr. Fredrik Fredriksson</td>
<td>Head of the Germany International Inc. M&amp;A</td>
<td>Telephone interview</td>
<td>English</td>
<td>2007-12-11</td>
</tr>
</tbody>
</table>

Table 1 An overview of the interviews

4.1.6 Data analysis

The data analysis were started parallel to the data collection for the reason that leaving it to later would mean that in case any issues we had not thought of would be discovered during
the collection we would not have been able to deal with it appropriately (Essy, 2002). Data analysis is according to Miles & Huberman (1994) connected with three activities called; data analysis; data reduction, data display and drawing conclusions. These can be seen in figure 4. Data reduction is a process where you firstly transform data into field-notes and transcriptions and secondly you make summaries, find themes in your data or code the data (Miles & Huberman, 1994). We started with data reduction by converting our tape recorded interview data into written transcriptions. Transcribing the interview data was done as soon as possible and has been done constantly during our data collection process. This is preferable to leaving all interviews to be transcribed in the end since it is time consuming, and it gives the researchers time to reflect on the interview (Essy, 2002). Furthermore data reduction was performed through searching for themes in our data and coding it. We categorised our data in accordance with the theory and our interview guide and from there we established four major themes; cross-border/culture, synergy, integration and strategy. So at first we organised the empirical data into those themes. Then we made sub codes such as Germany International Inc, Japan International Inc and US International Inc in order to further sort through the data we had gathered. Our empirical data section is structured in line with the themes and codes.

Data display is done to better allow for drawing conclusions (Huberman & Miles, 1994). Our data were reorganised after the themes and codes and presented as such in the empirical section, this provided for easier connections with the theory, so that we could more easily analyse it (Huberman & Miles, 1994; Saunders, 2003). With the use of data display we have tried to find patterns and relationships in the data. These activities have been a part of an ongoing process of organising the data in order to try to answer our research questions and allowing us to draw conclusions from the data (Huberman & Miles, 1994; Saunders, 2003). In the end conclusions were drawn from our organised empirical data but it was an ongoing process where we during the data collection had started to notice patterns and explanations (Huberman & Miles, 1994).

4.1.7 Validity & Reliability

Being critical is essential in research and Yin (2003) describes it as you should write like someone who is looking over your shoulder. He means that you should read everything through and reflect of what you have done. When collecting the data there is no regular
way of doing the qualitative study. Silverman (2004) writes that there are no qualitative
approach which has a single, consistent method for analyzing texts, conversations and
interactions. Our empirical findings have been collected through notes, audio- and
computer recordings in order to avoid mistakes and strengthen reliability and validity of the
thesis. To get in contact with the persons with the competence to answer purpose we got
help from the CEO Secretary, which strengthens the reliability that we get in access to
proper information.

Reliability of the case study is basically about avoiding errors and biases. If an investigator
uses the same methods as you have done, the results should be the same (Yin, 2003). The
authors of this thesis have used procedures that they perceive being easy to follow for the
readers in order to make it clear and avoid misunderstandings in the research. The
interviews in the case study at Sweden International Inc were provided in Swedish with the
four native Swedish speaking people and English with the two others. As mentioned earlier
we performed semi-structured interviews and follow-up questions were posed during the
interviews. There might have occurred misinterpretations concerning language in the
communication. To avoid mistakes the authors prepared themselves on possible follow-up
questions before each interview. Possible errors may occur when translating the interviews
from Swedish into English because none of the authors are native English and there might
be different interpretations on different words.

Does the research fit with reality and are you measuring what you really want to measure?
In validity the author is supposed to find out if the research fits the reality and if he/she
measures what he/she wants to measure. The research should fit in accordance with the
research questions and purpose of the study (Yin, 2003). To increase the validity of the
thesis apart from using multiple sources of data such as books, journals, articles, surveys
and the Internet, the authors used the case study at Sweden International Inc. The case
study was conducted through semi-structured face-to-face interviews, and by reading the
annual review and press releases. An aspect important in respect to this is that everything
written about Sweden International Inc is based on the annual report and the six interviews
and we assume the data presented to us to be valid. However, there is a risk that Sweden
International Inc has been selective in what information they have chosen to publish or
present to us. The interviews were conducted with managers in high positions and they
have an interest to put the company in a good light. One could argue that it would have
been good to interview people at different positions in the organization to get a further
understanding of the situation. The focus on strategic issues according to the purpose is
normally a task for top management of the company because it is about pathways for the
company, profits and maximization of growth (A. Andersson, personal communication,
2007-11-06). Our focus on how the company creates and realizes synergy in M&A’s within
business strategy is pretty narrow and involves mainly top management. In order to avoid
doing interviews with employees not involved in this work we decided to contact the
people who were responsible in these affairs.

4.2 Methodological & Method reflections

When reviewing our Methodological and Method approach we can find both strengths and
weaknesses in our chosen path. If we start with analyzing our Methodological approach
which has been conducted throughout the research we have found strengths in that we
have enlightened issues concerning ontological and epistemological viewpoints. As we are
three researchers conducting this thesis we all have different experiences and backgrounds
which have sculptured our way of thinking and reasoning when analyzing and interpreting
data. This finding will yield a broader and better founded analysis and conclusion in comparison to if we would not acknowledge our methodological standpoint. However one reason for including a method section in a thesis is that another researcher can imitate the chosen approach and find similar results, we argue that this will not be possible since when a new researcher conducts exactly the same method approach as we have done he will according to our methodological standpoint use his own personal experience and knowledge when analyzing and drawing conclusion from data. Therefore perhaps his findings will differ from ours, and this does not necessarily need to be seen as something negative because when conducting research differentiation in solving different research areas will only enhance the research. Hence we have found that reasoning and in the end taking a standpoint concerning these issues will add credibility to our research and finally yield a more grounded and well founded conclusion.

Moving on to our chosen method approach we can notice risks for biases both when we have interpreted the interviews conducted in English and when we have translated the interviews conducted in Swedish to English. Biases derived from communication issues are always present and especially when the communication has been conducted in a language that is not our mother tongue. However, our aim has been to diminish these risks as much as possible through recording the interviews and then afterwards as quickly as possible analyze the collected data. The translation issues have been dealt with in just being careful when conducting the translation and as two of the researcher has lived in England this fact will also reduce the risk for biases. Despite our efforts concerning communication and translation misinterpretation we cannot guarantee that mistakes have been made. Another weakness in our thesis is that we have conducted a case study at a company and consequently generalization issues could occur. This problem have been dealt with in analyzing three different M&As that the company have conducted and as these three M&A processes differ a lot we have gathered a broad data foundation for analyzing and enabling an more extensive conclusion.
5 Empirical findings

In this section we will present our data that we have gathered about the company we choose for our case study. The data gathered are based on the interviews at the company and will be presented in a structured way in unity with our theoretical framework. This will form the basis for our analysis.

5.1 Strategy and M&A objectives

5.1.1 General

When it comes to Sweden International Inc’s general strategy concerning M&A and realising or creating synergies it is a dynamic procedure. Mr. Christian Christiansson states that the reason behind their M&As could either be to compliment their product range or gain new market share. One part of their growth will be organic which is complimented by their M&A strategy. They have focused on acquiring companies which are complimenting their existing products and markets. Sweden International Inc is always looking to strengthen their core business through acquiring new markets share or positioning themselves in favourable strategic locations.

Mr. David Davidsson says that because Sweden International Inc has produced the concerned products since the start they have a lot of knowledge within the area and it is easy to see which companies fit into our organization. In addition qualitative factors are also very important, like competences and expertise. There are not a lot of appropriate companies in Sweden to acquire. And because of trust laws etc there are companies you cannot acquire hence 99% of future M&As are cross-border. The general reasons for conducting M&As are to grow and earn more money also to increase shareholders value. Sweden International Inc’s internal goal is to grow with 5% over one financial year, externally they have the ability to grow and continuing their aggressive M&A strategy as their cash-flow balance sheet is really strong. Their price/earnings multiple concerning how much they pay for a company could be anything reaching from four to ten, but they never pay money for expected synergies, they only pay for what the organisation is worth without their presence.

“For every M&A we need the board to approve, otherwise we cannot do anything.” David Davidsson

Mr. Anders Andersson states that Sweden International Inc has a rule which says that approximately 5% of their turnover should be found in synergies. If this is not the case one should start to wonder why they should acquire the company. Bigger M&As arrive normally around 5% but smaller ones can have a much smaller yield. They do not M&A with companies if they are not suitable for them in the long run.

“The dynamic structure which Sweden International Inc has is the foundation for their offensive M&A strategy: We work in different divisions inside our company and the person in charge of that particular division has responsibility to take care of employees and the whole M&A process. The reason for why we have divided our organisation like this is because it enables us to acquire different companies at the same time; hence it is a very dynamic and efficient structure. In addition each division feels great responsibility and motivation to conduct a successful M&A and consequently put in a great effort for yielding the necessary results. Motivating the new company’s employees is a key issue for conducting a successful M&A.” Anders Andersson
Mr. Andersson continues saying that the only division which are involved in every M&A is the financial division where they handle formal concepts, laws, rules, agreements, and Human resources. He argues that Sweden International Inc’s way for motivating the acquired companies are that they let the opposite part be responsible for their organization and letting key persons have new challenges. If one have something to offer it is really not a problem to make the acquired company feel as it is something positive. Sweden International Inc always have the opportunity to offer a distribution function which most firms never have been close to, they are located all throughout the world and the leading company in several areas.

Mr. Andersson states that the underlying concept is that people should have a positive attitude and that they are feeling motivated are really important when it comes to facilitation the integration process. If the feeling is not present meetings will be inefficient and time wasting. He would like to stress the importance of letting the companies work in their own speed and structure and continues saying that there is one important issue which needs to be addressed when acquiring firms internationally, and this is that you have to get approval from different trust laws then monopoly and oligopoly situations can incur. This issue is present when you have up to 40% of the market share, and in some segments up to 80%. When the organisation is this big you should be able to grow without M&As. Sweden International Inc is the market leading company in 90% of their business segments. On average they have 30% in each segment. The anti-trust laws have to be considered when it comes to regulations.

"Just as important as the integration process is the due diligence works when it comes to succeeding with an M&A." Christian Christiansson

Mr. Andersson says that when acquiring a company you always make a due diligence when you analyse the whole concept. You compare the different production units and look for environmental issues. Sweden International Inc also make a financial due diligence and in some occasions one HR and tax due diligence. HR due diligence is something that have risen during the last years where you evaluate employees and how well they can fit in to our organisation. During the financial due diligence you sit down with top management from both companies to seek synergies together. When finding synergies a time plan is sets up and off course how much the synergies are expected to be. They have a list from which they work from, however when communicating externally the expected synergies there is no reason to communicate every one that is expected, there is always good to have some backups.

### 5.1.2 Japan International Inc

Mr. Andersson says that they acquired Japan International Inc because they were interested in their strong position in the Japanese market and that they have strong and interesting production and sales department in China. They also have a very interesting niche in the US. Japan International Inc also possesses a really good technique for the products and they are very good at developing light products, this fact is a really good compliment for our product range. Technical, geographical, products, and production are the most important factors.

Mr. Christiansson says that their M&A with Japan International Inc were in line with their philosophy of thinking global. The strategic explanation was to gain markets share, strengthen core business and establish significant production and sales in Japan and China. In addition the M&A with Japan International Inc would get them a strong position within
David Davidsson’s section forestry, and hand held. Mr. Davidsson says that the two companies complement each other both according to markets and products.

“In the Japan International Inc case the expected synergies were smaller at the beginning however the integration has gone so well that we now have to adjust them positively. This is because we get a cross-supply ware our products complement each other and generate higher sales. The acquisition of Japan International Inc gave us access to the Chinese market and utilizing from Japan International Inc’s network among suppliers has saved us a lot of time and consequently a one to two years advantage to competitors.” Anders Andersson

5.1.3 US International Inc

Mr. Christiansson says that US International Inc were acquired because Sweden International Inc’s lack of strength in their segment. This is a coming market for both the US and the European market and through US International Inc they got access to new products and a strong brand name in the US.

Mr. Erik Eriksson states that they are absolutely using the US International Inc brand today, and he thinks that it will be around for at least 3-5 years. Depending on how well the Sweden International Inc brand will develop in this segment. But if Sweden International Inc grows in this segment there might not be any reason for them to have more brands. So the general strategy was to get economies of scale and realizing synergies. The US market is very competitive and they have over 50 competitors in this segment and too be successful you either have to be a large company with big distribution or a small company with small over-head costs. The strategic fit between the two companies were also attractive, US International Inc is very strong in central parts of US and they have a very loyal customer base as they were the inventors of zero-turns and these factors complimented Sweden International Inc as we are strong on both the west and east coastlines but weak in the middle. Getting access to this loyal customer base made it possible for them to grow big quite quickly in this segment

5.1.4 Germany International Inc

In the Germany International Inc Case the Mr. Bengt Bengtsson states that they acquired totally different products but the same customer base. In addition Germany International Inc complimented their European parts that they were weak in while Sweden International Inc is strong in markets that Germany International Inc is weak in consequently the strategic fit was really good and they saw big opportunities for conducting and successful M&A. Germany International Inc is focusing on products which are very unlike Sweden International Inc's production. Perhaps 10% of Germany International Inc’s customer does not buy Sweden International Inc products this yields that every sales man can offer a wider sales portfolio hence making more deals in every visit. In addition Germany International Inc possesses a really good relation to retailers throughout Europe. Mr. Bengtsson says that Germany International Inc did cost price/earnings multiple of 9.5, which is quite expensive but defend the number by saying that they are expecting a lot of synergies as well.

Mr. Andersson states that before their deal in Germany they had only sales no production. The Germany International Inc Company announced that they intended to be acquired and Sweden International Inc quickly conducted an evaluation if the company would be adequate to acquire. The first thing they looked upon was the expected return and if that
number was satisfying they continued. In many M&As the focus is on gaining market share or complementing existing products. The Germany International Inc M&A was not of that kind: instead Germany International Inc offered strong relationship to retailers and totally different products which they could utilize. Focusing on the diversification and how much synergy they could expect and if they believed in Germany International Inc as a standalone company.

“It is really important to look at stand alone effects; we have to believe that the company possesses the ability to perform without our interference. It does not matter if we can realise synergies if the acquired company cannot handle their own market.” – Anders Andersson

Mr. Andersson and Mr. Christiansson argues that Sweden International Inc was a preferred buyer from Germany International Inc and therefore the whole process of informing employees and making the final deal was significantly facilitated. They were a preferred buyer because their friendly approach and that Germany International Inc felt that they had big opportunities for cooperation and that they could see clear synergy effects. Germany International Inc was a strategic acquisition to quickly gain a strong position in central Europe among customers and also to have a strong brand name that fitted well into the Sweden International Inc family.

Mr. Andersson says that they could at early stages see a clear difference in how the two company structures looked like, but they felt that Germany International Inc had structured them good according to their surroundings. Therefore they cannot see any reasons to change anything, and as long as Germany International Inc is showing the right results they have nothing to complain about. Sweden International Inc believes Germany International Inc has a lot of experience within brand management. And as Sweden International Inc has Sunshine AB, Waterfall AB and Moonlight AB, they have a lot of experience in the dealer channels and very low experience in the macro-trade channels. That means the environment business. Germany International Inc is an expert in the macro-trade channels. The assignment is to build up a team or division the mass-trade channels and that means the wider business. Because Sweden International Inc have a world-wide one and in every wire-channel they are experts and they have a complete assortment and therefore the strategic fit between the two companies are very interesting.

Dr. Fredrik Fredriksson head of the Sweden International Inc /Germany International Inc integration process says that; in some countries Germany International Inc has a market share of over 36%, overall in Europe they are the strongest brand in the garden market and that is the strength of Sweden International Inc to take the brand Sunshine AB, Moonlight AB and Waterfall AB and to force the match rate channel and to win more market share in this channel. Sweden International Inc is experts in professional segments and Germany International Inc is expert in the wide segment. Sweden International Inc was the preferred Waterfall AB because their traditions and way of working were very suitable. But one needs to address that in the European market they have no acre competitors. The competitors are very weak in the segments which they are very strong in and have problems to find a Waterfall AB for a common M&A.
5.2 Synergy

5.2.1 Definitions and types of synergy

Mr. Bengtsson would define a synergy as when two separate units is united and the outcome is either bigger or the same as the two units separately was before the M&A. 1+1 is at least 2. While Mr. Christiansson defines synergy is when one plus one equals three (1+1=3). According to Mr. Davidsson synergies is about improvements such as to become more efficient, improving results, increasing market share and lowering costs. Dr. Fredriksson separates synergies into; quantitative synergies and qualitative synergies. In his opinion qualitative synergies are more important than quantitative. According to Mr. Andersson there are two types of synergies costs reductions and sales boosts. Synergy to Mr. Eriksson is when you have two separate things and whatever you can make; either better or less expensive when putting them together. He also distinguishes between creating and realizing synergy. Creating synergy is when you come up with the plan while realizing synergy is when you make them happen. The synergies are based on the decisions you make. If you execute on the plan you are realizing them.

“One can always argue that there can be synergies like knowledge and such things, but eventually the end result of that is cost.” Erik Eriksson

According to Mr. Bengtsson normally synergies not related to quantifiable methods will show themselves in new products as you will see in the development side. Pure competence is not anything that Sweden International Inc places any value on. Sweden International Inc is focusing on other functions like marketing, sales and production. It is a big process to gather an idea of what kind of synergies that could be realised, in many cases they have encountered and found bigger synergies than they have communicated externally.

Sweden International Inc work with a best-estimate; where 5% of the company’s turnover is considered a good benchmark for what to expect in synergies. Some of the synergy will come from cost reductions and some from sales increases. Mr. Bengtsson points out that it is not necessary that half of the synergies are on the cost side and the other half is on the sale side, it is dependent on the situation. On the cost side it is usually that you can decrease the amount of storage and inventory and hence save a lot of money. Other areas could be production and administration, where you can downsize the organisation. Access to new products and new markets are two other synergy effects.

5.2.2 Time frame for creating and realizing synergy

As Mr. Bengtsson puts it; one can never know how long it will take for synergies to show but initially Sweden International Inc have a three year plan from which they believe that the expected synergies can be realised. One needs to know though that synergies can be created and realised in later stages as well. Mr. Christiansson points out that the time it takes to create synergy depends on how large the M&A is a strategic M&A will take longer time than a smaller one. According to Mr. Davidsson there is a possibility to get immediate synergy effects but it can take 5 to 10 years before you can see synergy effects. It takes time to integrate products and product development.

“Synergies are normally expected to be realised after three to five years. The analytic media says one year but that is not right. The first year focus on getting to know each other and planning and preparation for the future. The time it takes for synergies to become realized depends on the kind of synergy. Pure costs
reduction can happen quite quickly but sales synergies take longer time. This is because sales synergies are often generated from new products and launching and developing new products takes time, up to five years.”

Anders Andersson

5.2.3 Issue when creating and realizing synergy

Mr. Christiansson sees two reasons why synergies are not realized. One reason could be an external negative surprise; something that you did not know about when the M&A deal was entered. For example the Mohammed crises in Denmark lead to Danish products being boycotted by the Muslim countries, which affected Danish companies in a way that they could not have planned for. The other reason is that management is too optimistic when they define the objective, e.g. maybe we will get these synergies? Then later in the process they will receive many surprises. It is important that in the due diligence you have good information so that you do not experience surprises. Another problem pointed out by Mr. Davidsson is that when working with synergies and while communicating with the other company no one wants to give out too much information.

According to Mr. Davidsson most important when it comes to realizing synergies are to look at products for lowering costs and to increase sales, to slim down the organisation a little. There are possibilities to create synergies in finance and IT but it is not something you decide to M&A for. Sweden International Inc has a talent management group, in order to see what people we have in the organisation and develop them. A company is not good if the staff is not good. The most important is employees and it is also important to get employees trust.

Mr. Eriksson stated that due diligence is important for realizing synergies because it is really important that one understand what they are buying and what type of synergies that could be realised. The only way to understand this is through information and knowledge, one can only know so much from the outside. Hence the due diligence work is really important in that matter because during this process one can see the facts and really discover things.

“Due diligence is to discover and analyze. Integration is executing on it. So I mean it is imperative, you have to integrate well or execute well. How you choose to realize synergies, how fast it is done and how much it is going to cost, is dependent on how well you integrate or how well you execute on your plan.” Erik Eriksson

However, Mr. Eriksson also states that one does not have to integrate. One might choose not integrate the operations, and still manage to realize synergies. A company can just use their purchasing power potential or leverage on the purchasing side and still get synergies even though they do not integrate them.

5.2.4 The management of synergy

“If the two organisations are integrated it is up to every management team that the expected synergies are realised and to get the operation to work. These teams are constantly working with improving the organisations to yield better results. Through this way of working we do not need to have so high involvement and the companies can focus on their business.” Anders Andersson

To see if the synergy effects become realized Sweden International Inc have a steering committee that follows the progress and reporting. This makes sure that they are on the right track. As a HR manager Mr. Eriksson look at what positions that can be made more efficient and if there are any units that can be consolidated, or if there is a central function
that is not needed. He looks at whether they have the management in place to execute this, and if they have management that they can develop.

“We do not use a third party in our M&A process.” Bengt Bengtsson

According to Mr. Christiansson in order to inform employees and get them to buy-in to the M&A Sweden International Inc use management communication, the management in the newly M&A companies communicates to their employees. In 2007 Sweden International Inc has been busy with the M&As but in 2008 they will focus more on information. Many employees want to know how things are working out and what is happening and it is also important with success stories for motivation. It is a balancing act though; since you cannot communicate too much in the beginning in an M&A process Sweden International Inc has a steering committee and it is the steering committee that identifies which areas they should focus on. Their job is to follow up on how the integration is going but they are not responsible for the business of creating synergy. They also look for ways to save costs.

“Sweden International Inc is good at adapting to every situation, we have learnt throughout the years. We are good at respecting people and to give and take.” David Davidsson

5.2.5 Japan International Inc

In the Japan International Inc case they will look at back-office and see how much they will be able to save there. Sweden International Inc and Japan International Inc will have separate sales divisions because they have different distribution structures. Japan International Inc works with distributors while Sweden International Inc works directly with retailers. For Japan International Inc this far the projects are doing fine and they are on target for realizing the synergies.

According to Mr. Davidsson there was a strategic fit between Sweden International Inc and Japan International Inc. They did not have too many overlapping parts, which was good since if they had overlapped in certain areas it would have lead to negative discussions about which divisions to close.

When it comes to creating and realizing synergy Mr. Davidsson has the responsibility and he believes that you have to be on site with Japan International Inc’s management and you have to have experience from running a business.

“You need to know where the difficulties lie and were the opportunities can be found. It is really important to be present, on site.” David Davidsson

5.2.6 US International Inc

In the M&A with US International Inc, Mr. Eriksson expected synergies such as; direct material, overhead as in people, facilities as in leaving one factory and moving everything into one, legal aspects, also negative synergies such as outsourcing which was planned to be more costly. The synergies from US International Inc are only on the cost side. So far there has not been any sales boost, because part of this acquisition was to leave the brand distribution and the sales organization intact. However because of the very quick and large integration a lot of cost synergies were created. He does not think there will be synergies from a sales perspective if they integrated the sales divisions. Although on the back-office sales side there might be synergies in terms of customer service, technical service, accounts
receivables, human resources, etc. There are a lot of synergies there but when it comes to distribution sales, he does not see any synergies in this specific case.

At US International Inc they had estimated, 6-8 synergies and while some ended up less than expected, others ended up more than what was expected. There were not any new synergies; it just happened that they did not materialize exactly as was planned. For example in outsourcing, direct material, it ended up less than expected. And a lot of that was because of what US International Inc did in-house and they decided to outsource. According to Mr. Eriksson in the end they did not realize as much money as they thought, however he believes that they managed to integrate further than what they first set out to do. They were able to consolidate more than they thought; they managed to take out more of overhead than they anticipated.

“So we had identified the buckets. Then it is just that it became less or more in the different buckets than what we thought.” Erik Eriksson

Several issues were encountered by Mr. Eriksson when creating synergy, but the main one is that US International Inc was very integrated and did a lot of their production in-house. Something that they did not think was efficient enough. The parts that they were producing in-house were parts that one buys from India or China so he took the decision to outsource a lot of those things. That is when they encountered a lot of issues, one being drawings. Because the production was in-house, drawings were not very exact or precise which creating problems when they tried to outsource this. This meant they had to do reverse engineering to get their drawings. Realizing synergies in terms of direct material costs was a real challenge and it was the main part which consumed a lot of resources for Sweden International Inc.

The synergies expected for US International Inc have been realized according to Mr. Eriksson but it was a horrible year for the industry in the US. Because of severe drought on the east coast and some big floods in the middle of the US the market went down, big time.

“Obviously when estimating synergies a lot of them are based on some kind of volume and when the volume go down because the market goes down you see less synergies than you planned. So you lose some of the synergies because of volume.” Erik Eriksson

Putting together US International Inc and Sweden International Inc created economies of scale in a segment that they were both pretty small in. US International Inc has a very strong distribution and is very strong on sales in the central USA, middle and south, where Sweden International Inc is fairly weak. So you can say that there is a strategic fit from a distribution perspective. US International Inc is also a strong brand that has been around for almost thirty years in this very specific segment. At US International Inc the company structure was fairly similar to Sweden International Inc, because US International Inc was owned by a fairly big public company. So at a high level it was almost the same structure, reporting, finance, legal. However when you go down on a lower level they were still operating more as a small company where everybody was involved in everything. For example there were four different departments that could answer the phone when customers were calling. At Sweden International Inc that would never happen.

In the US International Inc case Mr. Eriksson is incredible active in the process of realizing synergies. This is because when you try to integrate two companies over a short period the only thing you concern about is how the process are going, are we realizing and creating synergies. He is a part of everything. Since he was part of due diligence and had a lot of
information that the management team did not have there were a lot of knowledge transfer between them.

5.2.7 Germany International Inc

In the Germany International Inc case they expected 200 million SEK of synergies, 5% of the turnover. They believe that they can perhaps find synergies in the area of Germany International Inc’s product development as they have competence in that area. Germany International Inc’s speciality is in logistics and this is something Sweden International Inc seeks to utilise. Germany International Inc serves their customer in three days and has punctuality of 97% which will be a great benchmark for Sweden International Inc to compare to. Mr. Andersson also points out that they believe that the Germany International Inc brand will manage well in the US and through their massive distribution system they will reach out to many customers this will in the end yield synergies.

According to Dr. Fredriksson the synergy effect estimated for 2010 is € 18.4 million. These synergy effects come from, purchasing synergy effects of € 2 million Euro, new products of € 5.6 million, savings of and additional turnover of € 4.8 and € 4.3 million respectively. Many savings will arise because of the closure of some of Germany International Inc’s subsidiaries. The remaining synergy effects of € 1.6 million will come from “2in1”. They will close the Germany International Inc companies and integrate the Germany International Inc companies and Sweden International Inc’s subsidiaries. That is the additional point in “2in1”. That is our phase for integration. It is important to have one organizational rule in one legal entity and that means “2in1”. It would be possible for synergies to be won for Sweden International Inc by utilizing the relationship to Germany International Inc’s retailer because the business needs strong brands and for example, Sunshine AB is the right potential as a strong brand for the future. Germany International Inc has good reasons to become the number one company in the wide-business channels. Because both Sunshine AB and Germany International Inc have the same type of products, they have a lot of synergies in establishing a common platform. The main goal is to establish a common service area. Shared service area means shared finance, HR, IT, management. That is one of the synergies in combining two organizations.

“Germany International Inc has a strong brand name from which we will yield synergies from. We are both high premium brands and we seek to bring in some of our other brands under the Germany International Inc brand.” Bengt Bengtsson

Germany International Inc has a positive deviation in additional turnover in the long-run; they can see that they are on the right track. They have over-estimated the potential synergies and the actual savings, but that’s normal. In some cases you overestimate your potential savings and for Germany International Inc, they have very low common purchasing situation. They might have overestimated purchasing but they have also underestimated additional turnover for example. Concerning consolidation warehouses they are on the right track and also for consolidation for sales company. Dr. Fredriksson can see a different allocation of the synergies. This is due to the fact that the business case was created in February 2007 and the business was closed in April. It is impossible to plan for synergy effects for an unknown company.

According to Mr. Andersson the strategic fit between Sweden International Inc and Germany International Inc is really good; they complement each other in many areas. Sweden International Inc has a huge distribution channel and extended product range while Germany International Inc has really good products and a really good relationship to
retailers. Germany International Inc is strong in markets that Sweden International Inc is weak in and Sweden International Inc is strong in markets they are weak in.

“The management at Germany International Inc was in the first phase responsible for the integration of Germany International Inc, which is very unusual to do. In the post-merger integration process the company who bought the other company is normally responsible for this integration. It is the nature of such processes.”
Dr. Fredrik Fredriksson

5.3 Integration

5.3.1 General

Mr. Bengtsson stated that the integration process is the key issue for enabling synergy effects. Mr. Christiansson said that Sweden International Inc does not have any refined manual for the integration process, but they have a “road map” and the main thing that they start with is type of the M&A. It can be a strategic, tactical or local M&A.

“Depending on size and type of the M&A the integration process varies from case to case.” Christian Christiansson and Anders Andersson

The integration process is really important for creating synergies. Mr. Andersson continues saying that these synergies are expected beforehand and crucial factors for realising them is communication and to be able to motivate the new management team. In addition it is also important to create a win-win situation so both parties are satisfied.

“A special project group is created for working with the integration process and they report back to us quarterly, after twelve months a deeper evaluation takes place where we analyse if we are in phase with the initial plan for realising synergies.” Anders Andersson

According to Mr. Bengtsson, synergies can be realised and created in the different divisions: administration, R&D, sales. There are always people from the financial department in the creation and realization process of synergies. In every M&A that Sweden International Inc is concerned with, the CFO is involved with the due diligence work. The financial department is very active when it comes to creating a structure and following-up activities. After twelve months a thorough evaluation is done in how well the development has gone and if we are in line with the expected synergies. On top of this each company reports every month how the process develops and shows results. Sweden International Inc emphasizing the importance of a good communication with every M&A and the person in charge of the communication is working hard with integrating Sweden International Inc’s vision. This person is present in every meeting concerning the company.

Mr. Andersson states that in the beginning focus lies on getting to know each other consequently; a lot of mapping is done for gaining a holistic understanding. According to Mr. Davidsson when one starts with the analysis before an M&A you will start looking at the structure already. You do a rough analysis before due diligence so that you have more information about the company and afterwards you can start planning more thoroughly. Where can we create synergy? What will be the easy/difficult parts? Mr. Christiansson further says that the most common procedure is that Mr. Andersson discusses a current issue, negotiates and take inputs from different “sector heads” who recommends if it is appropriate with M&A. This subject is discussed in the group management and then he takes the question to the next level which is the board, who makes a decision in the question. The authors of this thesis have decided to call these first steps strategic intent
process. The integration process at Sweden International Inc consists of strategic intent process, due diligence and operational integration.

"Next part is the due diligence process which is dependent on the type of M&A; strategic, tactical or local. It is the part where the actual integration process is started. Most important aspects are the legal, financial and human resources in this stage." Christian Christiansson

Mr. Christiansson continues saying that top management assigns a steering committee which should keep the integration on track by following the integration. A project group is appointed with the assignment to carry out the integration. Mr. Bengtsson states that the project group is not a financial team; it’s a mixture of people from different divisions.

According to Mr. Christiansson it is common to have meetings between the project group and steering committee every 2-3 month, depending on type of M&A. The steering committee normally consists of some key stakeholders and other key persons at Sweden International Inc. Their mission is to fulfill the targets set up by the board and discuss if there is something that has not worked very well or if there is anything needed to be strengthen. The project group reports to the steering committee, there are a project coordinator responsible for the integration who reports to the steering committee about how the work is going and how far the integration has come.

"The project group gets input from different managers involved in the M&A and there are several different people controlling that things are going in the right direction." Christian Christiansson

Therefore is it very important to have clear roles, who is responsible for what, who reports to whom and whom are the stakeholders. In smaller M&As there might not exist a steering committee, instead is the top management or a business responsible following up the work directly. Mr. Andersson as the CEO is most responsible for business development and strategies. Important aspects to take into account are the nature of the business; it can be business-to-dealer, business-to-rental, business-to-professionals, business-to-customers, and business-to-key accounts for example. This is more suitable for smaller M&As where the M&A needs to be integrated immediate, very fast, or if it is an undersized deal.

5.3.2 Japan International Inc

Japan International Inc was first a part of another company’s family and Germany International Inc was an independent company and now they are a part of the Sweden International Inc family. What does being a part of the Sweden International Inc family mean for the employees of the new companies? Mr. Christiansson is positively surprised of how well and fast the communication at the management level has been running. Mr. Davidsson put forward that inn April the acquisition of Japan International Inc was finalised and then they could get started with the real activities and the integration process. First they identified 15 areas to be integrated. Some are now integrated only 5% while others are integrated 70-80% because certain areas are prioritised before others. It can take 3-5 years before some are more than 90% integrated. The main areas were:

- Financial reporting (financial reporting is integrated more than 90% already because it is vital in order to know all the results)
- IT (is needed for communication)
- Product development and platform (were dealt with from the first second)
• Purchase of components
• Production
• Market and sales organisation (will be dealt with in the future)

After they first had dealt with areas to integrate, lawyers had to go through everything. Mr. Davidsson travelled to all Japan International Inc’s facilities to go through the businesses. He checked up on business results that the M&As were based on, to try to find future problems and to reduce the buying price as a part of the negotiations.

“The most important areas are integrated first. For legal reasons financial reporting is important. The goal is to generate profit and you need to be able to check if this is working. IT is also important because everything need to function such as warehouse and sales systems. A company cannot survive without product development.” David Davidsson

You also check for places where you can save costs. Areas to integrate are not hard to identify but there is no recipes for it, it depend what kind of business it is and how the company fits in. There is no template. A steering committee was formed for the integration. Their demand was that 2 people would be sent to Japan International Inc. In the end Mr. Davidsson and another person went. Mr. Davidsson initiated the acquisition because of a study that he had made. So far no problems have been encountered.

5.3.3 US International Inc

According to Mr. Eriksson the US International Inc integration process happened very fast and was almost chaotic since they had to move the production to Nebraska from day one. Normally you let the two organizations operate separate for a while and let them integrate gradually. In the US International Inc-case they had to integrate directly and put together the two platforms, US International Inc was closed and instead they used another form of the US International Inc platform together with our. Technically it was hard to integrate that fast when there are so many activities such as article numbers and types of products, and therefore did Sweden International Inc have to decrease the complexity of the platform. So, the product platforms were consolidated directly during a time period of two months. On the marketing and customer side Sweden International Inc left everything intact; for example distributors and salesmen. They focused on internal issues such as the plant, suppliers and the product platforms instead. It was a very fast process where plant and products were integrated incredibly fast. Their most important task was to get the sales department working. Mr. Eriksson was project coordinator and together with a lawyer they held in the negotiations. The other work was provided by Mr. Eriksson, his managerial body some people specialized in different areas. This project group met daily. Mr. Eriksson reported directly to the CEO at Sweden International Inc, so it was in other words an incredibly flat organization in this specific case.

“Since the organization was this flat, with the due diligence team, steering committee and project group was pretty much the same people which were necessary to work fast. The size of the company was manageable and there were not as many people involved as in bigger M&As. A flat organization in such an M&A is the best option to succeed in these cases.” Erik Eriksson

Utilizing US International Inc’s knowledge was part of the challenge said Mr. Eriksson, which was part of the hardest part, to retain people. The sales force we could keep and they all signed on our agreement to work for us. In that way we retained knowledge. In that way
we kept the knowledge about the customers which was very important. But on the backend of things, we hired the head of operations, one engineer, one customer service person, one technical service person and that’s it. So you can imagine the knowledge you leave behind when you take over a company and people goes except for the sales force. So from a knowledge perspective I think we left a lot of that behind.

Mr. Eriksson cannot say that they had any synergies, upsides or downsides, from that. The question is how much of an impact does it have and he does not think it has been critical. It has just been difficult to integrate when you lose a lot of people that knew exactly how everything was built, working or who the supplier was, what deal was and all that stuff. That implies lots of resources to integrate and we might have left some synergies on the table because of that. But the good thing is that we did the exact same products in the exact same industry, so it’s not like we didn’t know the market and did not know the products or didn’t know the industry. That made it a little bit easier. If we would have stepped into a new segment and we would have moved more people over I think that we would have been in trouble. This made the integration process a tricky part.

“Today is the entire production, purchase division, to product range integrated. Sweden International Inc considers the two companies to be 99% integrated” Erik Eriksson

Though it is not ideal to integrate with such a time pressure, you take a lot of risks. One can drop sales or make mistakes when putting together two product platforms. Under normal conditions it should take about three years, but we had only six months so we had to take a lot of risks to succeed. An aspect that made the process easier was because Sweden International Inc was already in this market and had a lot of information about the main things.

5.3.4 Germany International Inc

Dr. Fredriksson states that the post-merger integration with Germany International Inc was divided into six main areas; cross-functional projects, R&D projects, sales, operations, administration and other steps. The cross-functional projects means that we need to develop an overall consumer division strategy. They are on the right track. They also need to develop new product families hand and wheel power tools and it’s also a leadership development process. At the moment they have reached 75% of the leadership development. Concerning R&D projects, Sweden International Inc have to analyze the product innovation and Germany International Inc’s current process, and they have an implementation of pilot projects. It is a platform strategy because both Sunshine AB and Germany International Inc have the same type of products and therefore they have lots of synergies in establishing a common platform. The pre-development process needs to be matched with the finance and existing technology, and it takes about 5-6 years to prepare a new product. They have planned to launch new products on a common platform for 2009, which is very fast.

Dr. Fredriksson further states that in the sales integration process they take the chance to get integrated in each country with its subsidiaries. Germany is the hardest challenge. The social plan is different and we don’t have enough space in our area for integrating one hundred full-time equivalents. The biggest reason for consolidation is the cost. The main goal is to establish a common service area. Shared service area means shared finance, human resources, IT, management. That is one of the synergies in combining two organizations. They have different business models which means, the consumer product is
different compared with the professional products. It’s different requirements and that’s the reason for having two managing directors.

“We have one legal entity but two managing directors, one of the professional and another for the consumer business. That’s one of my critical issues. That’s the question of power. The Sweden International Inc is very strong on the other hand Germany International Inc Company is also strong, especially in the brand management and that’s the critical point to balance the power. It’s hard to have too many managing directors.” Dr. Fredrik Fredriksson

Included in operations they have the current project capture savings, demand and supply flow and manufacturing footprint. One of the biggest issues for Sweden International Inc is the two different supply-chain models. Sweden International Inc uses one other type of supply-chain for Sunshine AB, Moonlight AB and Waterfall AB, because the supply-chain of Sweden International Inc is not the quality for the DHI Business since there are different requirements. Power point manufacturing footprints of Germany International Inc and if any production lines need to be closed is not yet decided.

The administration projects includes changing the reporting system, change of the business year, transfer pricing, legal, structuring, quick wins, originally quick-win manufacturing. For example they are making children seats, coffee machines and consumer business. And on the integration of administration they have very good status. Their last division is the next steps, which prepares Sweden International Inc’s R&D in order to take the business case to the next level, find solutions and check savings. There are some finished processes and some running in Austria, Switzerland and France. One of the things that will be done is to find new subsidiaries; they are looking for locations to have the subsidiary at the same place instead. In these kinds of questions there are always a lot of political questions.

“Germany International Inc was happy about having Sweden International Inc as their buyer, because in the case of corporate culture, business and reputation it was one of the best companies.” Dr. Fredrik Fredriksson

Mr. Bengtsson said that in the Germany International Inc case they have appointed a special team where the previous CEO for Germany International Inc is in charge of the whole process. Underneath they have a project group who reports to a special committee. According to Mr. Andersson the reason for having Germany International Inc in charge of the integration process was because they are bigger in their segment than Sweden International Inc. Germany International Inc has really good channels to reach out to groceries, and as they have the same vision as Sweden International Inc has we will not interrupt their business.

To be able to integrate the companies they have travelled a lot to Sweden International Inc and every managing director in the 2in1 cases have a lot of meetings, said Dr. Fredriksson. In the overall integration process first of all they make analyses and create a business process model. They measure the resource allocation and every business process. They have a management process, a sales process, an after sales process, a financial process, a controlling process and compare all the resources and processes and the allocation of the Sweden International Inc subsidiary. Taking these processes into account they create a new business process model. The business processes are like the nerves in an organic system in each company. That is a good approach to build up new organizations. The business process model is a guideline, which are the most important processes is every subsidiary, which kind of allocation do you have in each process, which process are very important for successful business and so on.
“Overall it is very important with clear project management, clear targets and clear priorities and common integration team for the integration process. To take the best side of each organization is impossible, like I take the best side in Sweden International Inc and the best side in Germany International Inc. Therefore successful integration process needs power and a common policy.” Dr. Fredrik Fredriksson

However, Dr. Fredriksson also states that in order to combine experience and knowledge, they have central divisions who coordinate this. Right now it is a chaos. Right now it is important to have the different functions such as HR-divisions centralized. It is additional savings to make in harmonizing the overall organization in these processes. Without accentual functions they have no chance and they use a lot of money especially in the IT-business to improve this. That is a key point for Sweden International Inc’s future; they need a framework. In general to utilize knowledge, they will address these questions in the steering committee after the integration. It can be hard to find a balance between the company position and the research position.

According to Dr. Fredriksson only the common process and for example in the field of R&D they want to analyze their business processes and that is also the right way to integrate knowledge and to use common knowledge. The pre-requisite for spillover is common organization and the deepness of the integration. The deepness of the integration for example the business process has very deep but the probability will increase for using common knowledge. The problem is the implicit knowledge. That is people management and that is the question of human capital. Knowledge management concept through IT-system he is not optimistic about. It is important to get the organizations to work together.

5.4 Cross-border/culture

Mr. Christiansson addresses that when they M&A in a cross-border environment they are always focusing on communicating their core values: the customer fit, professionalism, team building and open minds. Their top management team is analyzing the process and they are clear and direct in the communication. What they see is what they will communicate. In different parts of the world different legal systems are present, hence the importance of following those regulations systems are of great importance. This is done through hiring lawyers and listening to union opinions. One important factor is to hire leaders who can think global, as 99% of future M&As will be in a cross-border environment.

Mr. Bengtsson says that they are not noticing significant cultural differences in different places of the world. The most important thing when acquiring a company is that you can motivate the employees and make the owners feel that that the M&A will carry their company forward. And this is done by communication and common sense. Organisations have different working habits, but as Sweden International Inc is already active in the concerned markets where their M&As have been taken place, they already have the habit of doing business there.

“In the end it is a matter of dealing with human beings, there is good Swedish people and bad Swedish people, the same goes for any nationality. It is important to meet people and to work on the relationship. I am strongly against believing that certain people from certain culture acts in a specific way.” Bengt Bengtsson

Mr. A. Andersson argues that when it comes to cultural issues they have not encountered any big ones this far, perhaps this is because Swedish companies in general are good at adapting. The reason is that they do not have a choice because the Swedish home market is
so small and therefore they are forced to collaborate with other companies and hence also other cultures. Sweden International Inc never works from the philosophy that one size fits all, it is very important to adapt to every M&A. If there is a slight cultural problem it will be discussed in the management team, and then clarify what is involved and then solve the problem.

“Corporate culture is in my opinion not a key success factor. It is a question for the second step. What is more important is that one should have a clear; structure, target, priorities and the support of the steering committee. Those are the main key success factors for successful post-merger integration processes.” Dr. Fredrik Fredriksson

Dr. Fredriksson states that Swedish corporate culture is quite bureaucratic and it is based on common ground rules, and based on initiatives, and also on trust. This could quite clearly be noticed in their M&A attitude.

5.4.1 Japan International Inc

Mr. Davidsson reasons that in order to facilitate the communication and consequently also the integration process they decided to let an employee working consistently in 6 months with helping Japan International Inc in their start up with reporting. The person was a part of the steering committee to bring up important issue which could arise such as how Japanese people think and act in certain situations. He had lived in Japan for over 25 years and has written a book concerning Swedish culture compared to Japanese culture. Their aim was to confront this problem up front in case they would meet any bigger issues further down the road. The plan has according to Mr. Davidsson been successful.

Mr. Davidsson continues stating that culture in Sweden and Japan is quite similar. We both work according to the consensus method, working in teams. You have to listen to the staff and give them an opportunity to buy-in to the deal. You need to let the idea mature. In Sweden the basic is to work in teams but it is also mixed with other leadership styles. Sweden International Inc worked on creating a relation with the management of Japan International Inc so that they felt that they could trust Sweden International Inc. It is unusual that a Japanese company is purchased by a foreign company because of the Japanese culture, where a Japanese company is supposed to be Japanese. The management of Japan International Inc could persuade their employees to support the M&A because Sweden International Inc had built this relationship the company management.

5.4.2 US International Inc

Mr. Eriksson states that since US International Inc are operating inside the same industry; culture was not a big issue. They have the same customers and are familiar to the concept. This does not mean that it was any cultural differences, US International Inc still had a small company’s culture, it was not that formal, and consequently they did not have so many procedures. This was the biggest differences when it came to culture however since they did not keep a lot of employees approximately 15 people out of 500. Hence when so few people stayed, they were so few in the proportion of the total, so Sweden International Inc’s company culture became the culture very fast.

It was really on a different level that the cultural issues arose as US International Inc operated as a small company they improvised a lot they did not have the proper drawings, pricing systems were out of date, and prints on everything. They had the philosophy that as long as it fits it does not really matter; in comparison to Sweden International Inc this
attitude is very different, where everything matters. The challenge in the integration process was not the real culture it was the outcome of the culture.

5.4.3 Germany International Inc

According to Dr. Fredriksson, Germany International Inc was very satisfied about conducting an M&A with Sweden International Inc. They were happy because in the case of corporate culture, business and reputation they were one of the best suited companies.

"Sweden International Inc and Germany International Inc has encountered communication problems because of different corporate cultures and he argues that the communication is one of their weakest points. One of the reasons is the constellation, because Germany International Inc was responsible for integrating the Sweden International Inc group and therefore they had a lot of problems to find the right persons." Dr. Fredrik Fredriksson

Dr. Fredriksson knows the Swedish culture very well because he has a lot of experience from working in Sweden. Germans is always organized, and Germans needs lots of advice, a clear structure. In the current situation they have had to look for the right persons and to build up strong relationships which are not suitable for their way of working. Germans need clear advice; that is the person in charge for the financial controlling; that is the person in charge of the HR and so on for enabling efficient cooperation. Swedish corporate culture is more bureaucratic and it is based on common ground rules, and based on initiatives, and also on trust. The Germans have problems to have trust and are very controlled. This issue is according to him a critical point to succeed with an M&A.

Mr. Bengtsson states that in Germany International Inc they can see a difference in how their organisation is structured; they have a lot more secretaries. This is something that could be discussed, but in the end it is all about producing good numbers so if they succeed in that we have nothing to say. Otherwise the differences are not that big and Sweden International Inc has a very good relationship to Germany International Inc.
6 Analysis

In this section the analysis will be presented. The analysis is based on the empirical data and is structured in a similar way. The empirical data has been analysed with the use of the theoretical framework and the research questions has worked as a guide in order for the analysis to shed some light on the purpose.

6.1 Strategy and M&A objectives

Sweden International Inc’s production and sales distribution is located in over 100 countries spread throughout the world issues concerning cross-border and culture is deemed to occur.

“It is not a lot of appropriate companies in Sweden to acquire and because of trust laws etc there are companies you cannot acquire hence 99% of future M&As are cross-border”. Anders Andersson

Other important areas when M&A internationally are enabling rapid penetration into new markets, consequently gaining a strong customer base and strong relations to suppliers and other stakeholders will cut many years in comparison for establishing business in a new market. According to Hitt et al. (2001) there are five different reasons why companies choose to cross border:

- Increased market power
- Overcoming entry barriers
- Cost of new product development
- Increased speed to market
- Increased diversification

In comparison to Sweden International Inc’s cross-border strategy we can see a clear connection to these five reasons for M&A internationally. In the Germany International Inc case the main objectives were to increase the diversification in their product range. Mr. Andersson states that in the Germany International Inc M&A they complemented their present products with completely new products in order to increase the diversification and enabling more sales in every meeting with customers. In the Japan International Inc case they needed to overcome entry barriers as the Japanese market is hard to penetrate and the process facilitates when using a Japanese familiar brand. Mr. Davidsson argues that a strong Japanese tradition is that Japanese companies are supposed to be owned by Japanese owners. Through overcoming entry barriers in the Japanese market and their philosophy it was of great importance to M&A with a Japanese company. In the US International Inc case it was also the diversification part but also cost of new product development as Sweden International Inc searched for a company with a specific product they wanted to M&A with. Mr. Eriksson states that one key reason for the M&A was to quickly gain a strong foundation in this product market and also that the strategic fit concerning geographical reasons where US International Inc and Sweden International Inc were strong in different regions in the US.

What links all the three M&As together is that Sweden International Inc saw strong possibilities in increased speed to penetrate markets and increased market power. Mr. Andersson also states that major reasons for cross-border M&A is to quickly gain market
share in new regions and enabling rapid penetration, utilizing from existing relations is also key issues for succeeding in creating and realising synergies.

Theories from Sudarsanam (1995) says that other reasons for cross-border M&As are growth orientation in order to extend market and achieve economies of scale, access to inputs such as technology or labour, exploit unique advantages such as a brand, reputation, design, production and management capabilities. Sweden International Inc have definitely used the M&As for gaining growth and economies of scale. Sweden International Inc has an internal goal of growing 5% organically and complements this through conducting different M&As. Mr. Bengtsson states that in many M&As economies of scale could be found and this is something they search for when analysing expected synergies.

Concerning different inputs like technology and labour Sweden International Inc M&A with all three companies because of technology factors as new products. In the Germany International Inc M&A a completely new technology in products were acquired. In the US International Inc case a complementary new technology in to their products were acquired and finally in the Japan International Inc case new products were acquired. Hence definitely new technologies were one major part but when it comes to labour Sweden International Inc has not really been focusing on acquiring labour, key competences, or other qualitative factors.

Mr. Davidsson says that qualitative factors are of great importance and in the long run perhaps the most important factor for yielding a successful M&A. But saying that he focuses on the post-M&A process and how they should manage competence inside the organization not the due diligence work prior to the M&A process were they evaluate the companies. Mr. Bengtsson argues that in the due diligence work a new approach where they make a HRM due diligence has risen. Here they evaluate different employees in how they could fit into the organization; though when asking Mr. Davidsson, Mr. Eriksson and Mr. Andersson who plays a major role in all acquisitions, none of these stress that they emphasize on qualitative factors in the due diligence work. Compared to Sudarsanam’s reasoning and that of Dr. Fredriksson, Mr. Christianson says that qualitative factors is a very important area and he continues saying that one important factor is to hire leaders who can think global, as the magnitude of future M&A will be in a cross-border environment. Here clear disagreements could be found inside the organization and also compared to some statements of what the theory says. It could either be derived from communication problems or that they have different opinions concerning the issue.

6.2 Synergy

The opinions of the top management team at Sweden International Inc all correspond to the written definitions of synergy which is that synergy is the additional or extra value you get when putting two companies together. They acknowledge that there are other issues involved such as knowledge or competence but they do not place any value directly on that. Instead they believe it is a part of something else such as product development. This does not have to mean that there are not such things as synergies such as knowledge or competence, these things are hard to put any monetary value on and without knowing the value it is left out from M&A equations since these are based on numbers. They also pointed out that synergies can be divided into cost-reduction and sales-boost and this can be compared to Gaughan’s model (2002) of the process of realizing synergistic gains where there are revenue enhancements and cost reductions.
For each M&A they all talk about back-office savings such as integrating HR, finance, IT, etc. Integrating these functions into the central one at Sweden International Inc seems to be one thing that is given in a M&A situation but as David Davidsson said, there can be synergies in combining IT and finance but it is not something you M&A for. This seems clear since because the cost reductions from for example hiring one HR manager instead of two does not seem like a sufficient reason in order to create a profitable M&A.

In the Germany International Inc case they expected synergies; in product development and by using Sweden International Inc’s distribution system to sell the brand in new markets and also by using Germany International Inc’s distributors to sell Sweden International Inc’s other brands. In the Japan International Inc case the synergies seem to come from cross-supply. In the US International Inc case the synergies all came from cost cuttings. The synergies expected seem to mostly correspond to the operational synergy according to Hitt et al. (2001) and Larsson’s typologies; the ability to create more value from two companies working together than two companies working separately and when the company due to increased scale and experience can lower production and marketing costs. This type of synergy fits the description best. This does not mean that the other types of synergies does not fit the bill but that perhaps the operational synergy is the most effective when explaining how to create synergy. Perhaps operational synergy is the type of synergies that companies decide to M&A for and what brings most profit.

That synergies take on average 5-10 years seem to be the opinion except for minor M&As where the process could be shorter. This implies that M&As are a long process that will take up a lot time but also physical as well as human resources. M&As will need to be a well thought through strategic step because when it takes such a long time to realize all the expected synergies this cannot be done in order for short-term profits in order to please shareholders. Synergies such as cost reductions and revenue enhancements will be produced during the integration process; that is not all synergies will take 10 years to create and realize. This makes integration and synergy creation a long continuous process. Gaughan’s model (2002) of the process of realizing synergy does not seem to take this view where integration comes before performance improvements which results in cost reduction or revenue enhancements.

One of the four foundations that Hitt et al. (2001) talks about is the strategic fit, that companies that M&A should have different strengths and weaknesses because if they are similar the prospect of synergy creation is reduced. All these three companies seem to have strengths and weaknesses opposite those of Sweden International Inc. Germany International Inc is strong in markets that Sweden International Inc is weak in. Japan International Inc’s products complimented those of Sweden International Inc and the M&A gave them access to the Chinese and Japanese markets which they were weak in. With US International Inc they got economies of scale in a segment they were small in and US International Inc brought Sweden International Inc a strong distribution in the middle and south of the US where they were weak. So, all the M&As had different strength and weaknesses compared to Sweden International Inc and strategically they all fitted. This is something that the management team seemed clear about. Strategic fit is, as the literature says, something important but it does not happen by chance it is something that the management should make sure is there before the M&A deal is done, in order to have a more successful M&A.

Problems that the managers are thinking about are communication issues and being too optimistic in the pre-deal and not being to clear in how to create the expected synergies. These are issues brought up in the theory. However the management at Sweden
International Inc also takes up the issue of external surprises. These can have a great effect on the creation of synergy such as in the US International Inc case with the weather and even though they cannot be planned for precisely they can be taken into consideration and contingency planning.

In both the US International Inc and Germany International Inc case they have seen a different allocation of the expected synergies. Some synergies came up less than expected and some came up more than expected. This is because you cannot know and plan everything beforehand. One reason is external surprises such as weather but it is also due, as Dr. Fredriksson points out, to the fact that it impossible to plan for synergies for an unknown company. When Sweden International Inc M&A with Germany International Inc the first plan was drawn before the deal was made. Of course they had access to information to do the calculations, etc but one cannot know everything until one actually owns the company. This sounds very much like a catch 22, where the conditions contradict each other. You have to plan and such in order to decide whether the M&A is a good idea or not but you will not have every information that there is until you actually own the company. Maybe this is one of the reasons many M&As fails? The problem is how management is supposed to deal with this. Of course they can only gather as much information as possible.

Both due diligence and integration are important when creating synergy according to our interviewees. This thesis is focusing on the post-M&A phase but as Chanmugam et al. (2005) said one of the key drivers for a successful M&A is to treat it as a holistic process. The pre-deal phase and the post-M&A phase have to be seen as interdependent. Listening to the top management of Sweden International Inc, you can see that they have taken this into consideration. Because they are involved in both the pre-M&A deal and the post-M&A deal and they take equal importance of due diligence and integration. The due diligence needs to be extensive and form a true picture of the situation in order to facilitate the integration process. It is important that what is done before the deal is as accurate as possible. Because if estimations beforehand are totally wrong it does not matter what the management team do after the deal they will not be able to meet the estimates. So even though this paper looks at the post-M&A phase the pre-deal phase is important for the success of the post-M&A phase and has to be considered as well.

In accordance with Hitt, et al. (2001) managerial guidelines Sweden International Inc have created a special team responsible for creating synergy. The management has also been very active in the integration and synergy creation. As Mr. Davidsson said it is important to be present and on site. As far as the literature says that creating synergy is the managers’ job, Sweden International Inc seems to be in agreement. The synergies might come from M&A two companies but it is the managers that create and realize the synergies. This implies that companies need to be just as thoughtful with choosing their management team as when choosing which company to M&A with.

### 6.3 Integration

Today it does not exist any manual for the integration process within Sweden International Inc but after putting the interviews together it shows that their general approach overall corresponds well with theory. There is not a one best way of doing this, and it varies from case to case depending on what kind of M&A it is. It can be strategic, tactical or local. Anyway, for all M&As value is not created until after the integration. As mentioned earlier the authors choose to call this stage strategic intent process in which the first step is to do
lots of mapping to get an understanding of the businesses and do analysis of the company, market and overall question marks. This can be related to what Habeck et al. (2000) stated in the “seven rules of M&A success” that the first step is to create a good vision. The vision is essential for the integration buy-in, in order to establish a successful M&A. It makes it easier for management to provide orientation and manage expectations, which is illustrated in figure 1. At Sweden International Inc Mr. Andersson starts a current issue and takes the question to the next level which is a more thorough analysis. The next level corresponds to the due diligence stage as Whalley et al. (2000) argues that during the due diligence work the acquiring company have the responsibility and opportunity to show forth every aspect of the target company’s strengths and weaknesses in order to verify for themselves that nothing is missing and enabling an deep and unbiased analysis. This is a more thorough investigation than the initial mapping stage and as the Mr. Bengtsson states that during the due diligence work you analyze the whole concept and how well the two organizations fit together. Further showing the deepness and importance of the due diligence work is that in nearly all interviews the correspondents have emphasized the importance of the due diligence work when it comes to succeeding with an M&A. Mr. Eriksson even levels the due diligence stage as important as the integration phase. Hence Sweden International Inc’s view concerning this subject is very much in line with theories.

The nature of the business such as business-to-dealer, business-to-rental, business to-professionals, business-to-customers and business-to-key-accounts affects how the continuous integration is done. The steering committee and the project group are being appointed by top management to keep the integration on track and execute it. As Habeck et al. (2000) stated it is important to appoint a management team quickly to avoid uncertainty. Creating uncertainty can lead to an unmotivated team which is not good. Overall it is best to stick with a clear and consistent communication through the integration process as both Huang et al. (2004) and Purnam et al. (2007) writes about. In order to avoid employees being left out of the loop it is good to have clear roles and smaller groups.

The biggest issue in M&As is to fully integrate the two companies into one single unit. By comparing Shrisvastava (2006) that it is common to start the integration process by integrating the accounting systems and to establish a common legal entity which actually fits well with all three cases. Both areas were initially done in all of the three cases, for example in the US International Inc case where they had a pack of lawyers working with the juridical issues together with Mr. Eriksson from the start and in the Germany International Inc case the administration projects such as reporting system and transfer pricing had a very good status. Therefore we can see that this part seem to correspond well with existing theories. The following step is to integrate product lines, production systems, physical assets and technologies. We see that this varies depending on the type and size of the company, and its market. For example was Germany International Inc a bigger and more well-known brand in its segment than US International Inc, and their integration processes varies a lot.

The project group normally consists of a mixture of people from different divisions within both companies which is a way to recover communication problems as Shrisvastava (2006) discusses. The US International Inc case is a good example where they used functional groups resembling sales, production and R&D as subgroups reporting to the project group. But it was also used for the other two cases. In the Germany International Inc case the different functional groups within the project group were cross-functional projects, R&D projects, sales, operations, administration and other steps. The Japan International Inc case is divided into financial reporting, IT, product development and platform, purchase of
components, production and market and sales organization. It is easy to see a pattern in the three M&As where each integration process is divided into these subgroups in some way. They follow the same procedure from strategic intent, due diligence to the operational integration where the integration are being realized through the steering committee, project group and functional groups.

US International Inc was integrated extremely fast because of, for example, different article numbers and type of products and this is a good way to handle an integration process according to Hitt et al. (2001). They say that the quicker one act the more likely the integration will be a success. For Sweden International Inc they did not have any choice than to act fast because they needed to put together the two product platforms. Compared with Germany International Inc where the process is more structured and planned from the beginning.

One of the most important tasks in the US International Inc case was to get the sales department working as quick as possible. Therefore this was one of the first assignments for them. We think that in smaller M&As it might be better to focus on the activities that create most value for the company first and that some of the other activities are more important than others in the initial stage. For example it is important to follow the rules and regulations that exist and therefore should law issues be one of the key stones in the initial stage. This relates to what Chanmugam et al. (2005) writes about putting activities that creates most value first in the integration process. It is though important to have some kind of “road map” for which areas that should be done and when, and for bigger M&As it is more important with structure and planning.

To succeed with the integration it is necessary to consider cultural issues in the process. When doing M&As such Sweden International Inc has done it is important to reflect upon the corporate culture and also the national cultural differences that exist. In the theoretical part we used Pribillas (2002) four different things that the cultural integration is dependent upon. The first is the behavior of the stronger company; if it has a dominant behavior conflicts have a tendency to arise and it can be hard to get motivated employees in the smaller company. It is important for Sweden International Inc to know about this and also to be open for changes and to respect the new companies. The second is the attitudes of the employees and managers toward the M&A; it is important to have a clear communication between management and employees to not influence the attitudes negatively. Sweden International Inc seems to be very far on this stage because they state that people is more important than culture, that giving people challenging tasks results in successful solutions. Third thing is the desired degree of synchronization which reflects the attitudes for putting the two companies together. It illustrates the importance of having good relations with the other company in order not to lose people and competence in the integration process. In the Germany International Inc case one action was to let existing management control the integration process. The fourth is the degree of cultural freedom conferred upon the M&A. That means the degree to which the companies are allowed to act freely and in both the Germany International Inc and the Japan International Inc cases this was done by structuring the process in different phases and let each area take the time needed to be integrated. For example it can be done by letting some areas be integrated over a longer period of time.
6.4 Cross-border/Culture

Mr. Andersson argues that Sweden International Inc have not encountered any big cultural issues this far. The two other members of the top management team who has not been responsible for any of the chosen M&A processes; Mr. Bengtsson and Mr. Christianson is having the same opinion concerning cultural differences and issues related to the M&A process. Mr. Christianson says that they have not encountered severe cultural differences in different parts of the world and continues saying that there always is people that Sweden International Inc are dealing with and despite their cultural background. Mr. Bengtsson is having the same interpretation as Mr. Christianson and also argues that one should not focus too much on cultural differences as it is the people who are important. These statements can be compared with our theory concerning Huang et al., (2004) who argues that a big part of making M&As to work is all about successfully combining cultures. This is the biggest sticking point and the major reason many M&A create little or no lasting value for shareholders. Success in M&As is more achievable if the target businesses fit those of the buyers as to business concepts, markets principle and culturally in terms of assignment of responsibilities and motivation of its people (Huang et al., 2004). We can notice that there is a difference between top management opinions and what the theory says, none of the top management claim that culture when it comes to working habits and other cultural artefacts is a key issue when M&A with another company. Dr. Fredriksson even argues that corporate culture is not a key success factor. Culture is a question for the second step and should not be focused upon in early stages in an M&A.

However all members of the top management team agrees in line with Huang et al. (2004) that handling people in the correct way is one key factor for succeeding with an M&A process. Sweden International Inc’s way of handling people in the correct way is done by motivation. Mr. Christianson argues that Sweden International Inc is putting a great effort in keeping key persons inside the new organization motivated. The motivation is done by offering new exiting challenges through placing key persons in new important positions inside the organization. He continues arguing that people working in these conditions love challenges. According to Huang et al. (2004) success in M&As is more achievable if the target businesses fit those of the buyers as to business concepts, markets principle and culturally in terms of assignment of responsibilities and motivation of its people. Finally brand-management is an important factor which in-line with theory has been conducted, both the Germany International Inc brand and the US International Inc brand have different scenarios which could be utilized dependent on how the reality will look like.

When analyzing the communication inside Sweden International Inc we can find some interesting facts. Dr. Fredriksson says that the communication between Sweden International Inc and Germany International Inc could be improved and consequently states.

“Sweden International Inc and Germany International Inc has encountered communication problems because of different corporate cultures.” Fredrik Fredriksson

Continuously he argues that the communication is one of our weakest points. One of the reasons is the constellation, Germany International Inc was responsible for integrating the Sweden International Inc group and therefore they have a lot of problems to find the right persons. Moreover he argues that Swedish people are working with initiatives and trust factors as a foundation which could be a problem for Germans as they are stricter and more controlled and therefore need clearer advices when solving problems.
Mr. Bengtsson states that in Germany International Inc they can see a difference in how their organisation is structured; they have a lot more secretaries. This is something that could be discussed, but in the end it is all about producing good numbers so if they succeed in that they have nothing to say. Otherwise the differences are not that big and they have a very good relationship to Germany International Inc Mr. Andersson and Mr. Christianson also says that Sweden International Inc have not encountered any big cultural issues so far concerning all the conducted M&As. This is quite contra dictionary to what Dr. Fredriksson says. Off course Dr. Fredriksson also stresses that they have a good relationship and that Sweden International Inc was a preferred buyer but this does not mean that things could not be done better. Also Mr. Eriksson argues that they have encountered problems concerning the integration process between Sweden International Inc and US International Inc, he argues that the outcome from US International Inc’s culture has been a problem which has been dealt with. In the Japan International Inc case the communication was facilitated through employing a contact person responsible for all communication between the two companies. Cultural issues were taken more serious in the Japan International Inc acquisition compared to the other two cases and hence also the process has gone smoother. To facilitate the communication between Germany International Inc and Sweden International Inc the same approach could be used as in the Japan International Inc case, to have an employee positioned at Germany International Inc focusing on the communication. Another factor could be that when Germany International Inc has many secretaries perhaps information could get lost. Talking directly to the concerned person would reduce the risk of misinterpretations and lost information. Hitt et al. (2001) argues that there are certain areas where problems regularly occur; the acquiring company pay too little attention to leadership, focus too much on cost synergies, they neglect the importance of getting employees aboard and the cultural issues, there is a lack in the communication and managers manage the risk very poorly. In comparison to Sweden International Inc we can notice that they have as mentioned a deep focus on getting employees aboard and motivating key persons to perform well. Though when it comes to cultural issues as an important factor they seem to neglect it in every case despite in the Japan International Inc M&A and here theory seem to be right as this is the only M&A from which we have not found any problems. What is perhaps even more important is that they also have some communication problems, communication problems could perhaps be derived from the cultural problem as people from different backgrounds posses different communication habits.
7 Conclusion

In this section we present our conclusions that have been drawn from the analysis. These conclusions are related back to the purpose and research questions in order to find some answers.

The purpose of this thesis is to analyze how the management of a company create and realize synergies in the post-M&A process of a cross-border M&A.

The purpose has been fulfilled by answering our research questions that are stated below.

Research Question 1: Why does the management of a company choose to do a cross-border M&A?

The motives we have derived from the three M&As are product diversification, to overcome entry barriers in new markets and new product development. It was also pointed out that these M&As were also undertaken in order to quickly gain market share in new regions and enabling rapid penetration. Of course one thing that all three M&As has in common is that synergies are expected from them. One synergy they all had in common was to integrate back-office, to centralise administration and functions such as, HR, finance, IT, etc. This is one way to make cost saving synergies but as it was pointed out not a reason for the M&A. Another issue that came up was that strategic fit was evident in all of the M&As. All companies that Sweden International Inc M&A with were strong in markets that they were weak in and they had products that complemented them. This we believe stresses the importance of the presence of strategic fit. Finally due to market conditions and lack of suitable domestic companies Sweden International Inc are forced to M&A cross-border.

Research question 2: How does the management team of a company work in order to be able to create and realize potential synergies from the cross-border M&A?

First of all it was noted that creating and realizing synergies were a long process on average 5-10 years but it depended on the type of M&A. Another issue that were evident in two of the three M&As was that there was a different allocation of synergy than expected. This point to the fact; that you cannot plan exactly what levels of synergy to be created. We have found that one cannot separate the pre-deal phase from the post-phase. The managers stressed that how the due diligence was as important as the integration. There is no manual for the M&A process at Sweden International Inc instead there is a general approach on how to conduct it and then the manual is customized for each M&A. We have three different stages; first the strategic intent phase, followed by the due diligence phase and ended with the operational integration stage. Our data shows that the functions that will create most value by the M&A do become prioritized, but first of all functions such as finance, law and IT get integrated. These will not create any extra value, although they might cut cost, but they are essential in order to run the business.

The managers are the key to creating and realizing synergy and a special team responsible for this need to be set up as it has in Sweden International Inc’s three M&As. They need to be active in the process but also present and on site in order to create and realize synergy. The special team responsible called project group will help to avoid uncertainty with stakeholders such as employees; they are also normally put together by a mixture of people in order to avoid communication problems. Corporate culture is not treated as a key to a successful M&A. They all acknowledge cultural issues but they believe that the differences are not that great. People are more important than culture. People are what makes companies successful and motivation, such as giving people challenges, is a key success factor in succeeding with an M&A.
8 End Discussion

The end discussion section of this thesis includes a discussion on the subject with the authors’ personal thoughts and opinions. There is also a part that reflects upon the thesis’s limitations and contributions. Finally there are recommendations given for future research.

8.1 Discussion

One thing we noticed was that even though Chanmugam et al. (2005) said that the M&A process need to be treated as a holistic process, the literature on the subject kept bringing up integration and how integration is a key in order to create synergy successfully. The theory does not seem to consider due diligence of equal importance. There is a lot of information on due diligence too but it is not mentioned in connection with the integration and how to create synergy. We feel that there is a gap there. Another finding shows that when theory emphasis the importance of cultural aspects our empirical findings shows none of this importance. Sweden International Inc's management focuses heavily on that there are people who should be in focus and on member even argues that cultural aspects are a question of second step when it comes to integrating two companies. Hence here also the theory is not coherent with practice.

As we established that there is no manual for the M&A process since every M&A is different, perhaps it is important that instead of creating a best practise, companies should focus on establishing a learning system. For a company that continuously M&A; a systematic way of learning from experience, a way to record all facets of the process, good experiences and failures would perhaps be better. That way they are better prepared to deal with the future M&As even though they do not have a manual. The theory states that having different strength and weaknesses that complement each other is important in synergy creation and that is something that we have seen evidence for in this case study.

Opportunities for Sweden International Inc

Since both Germany International Inc and Sweden International Inc AB’s products are considered to be high-quality products it can be hard to position the different products in order to avoid competing with one and the other. Germany International Inc is a strong brand today and we think that Sweden International Inc need to carefully think through how to keep it that way, whether to keep it and make it a sub-brand within their product range or integrate their products completely. It might be possible to specialise Sweden International Inc products solely in the professional segment and have Germany International Inc in the consumer segment. There may be greater chances to grow if each unit focus on one segment. It might also be easier to separately create stronger brands in each segment if they are more specialised.

As we have written a lot about in this paper it is important to have clear communication between the different units in the company. We must say that Sweden International Inc’s way to divide the M&As into smaller groups such as the steering committee, project group and functional groups seem to be a very good way to do it. It is important to have clear communication and everyone should know whom to report to. However, from the interviews we have confronted that the management at Sweden International Inc have not been sharing any experiences with older M&As that have been done within the company. This is something for them to work on, as they say future management need to think global
because 99% of the M&As will be done cross-border, and they will most likely confront several new M&As. They need to create some kind of evaluation channel in order to take care of their experiences. It could be some kind of evaluation form that the head of each M&A fills in and file in a common folder. Knowledge sharing is an important issue and if conducting an evaluation form or some feedbacks sheet Sweden International Inc could save scarce resources such as time and money in future M&As as some mistakes does not need to happen again.

8.2 Reflection and Contribution

Limitations

One limitation with our thesis could be that we only look at the acquiring company in the M&A process; therefore we did not talk to people in the acquired companies except Dr Fredriksson. One could perhaps argue that this could be seen as a negative concerning that we only have collected data from the acquiring firm and that they perhaps not can show forth the whole process and also interviewing the acquired company could enlighten the whole process from another angle. However we have in early stages in our research discussed this issue and concluded that for answering our purpose we do not need to focus on both sides of the M&A process as we focus on how management work and in this case the management are from the acquired firm.

Another limitation is that we did not have access to the actual results derived from the different M&As because it was too early in the synergy evaluation phase. If we would have this access then one could compare the different M&A strategies to the outcomes and then conclude which approach that has been the most successful. In our study we could only focus on why and how management believe that they will find synergies and why they chose to cross-border.

Contributions

M&A is a subject that interests many and there is a great deal of literature on the subject so it has been difficult to get some new insights into the issue. Despite this fact we have found that theory is not always coherent with practise as in numerous cases such as the focus on integration and not the due diligence and also cultural aspects.

Another contribution we have made is that companies in similar situations active in a global market can read our thesis and see how another company have conducted their M&A. Which kind of strategies they have used, and further which areas which they think are the most important ones and then utilise this information in their own M&A. In addition we have also contributed with a more in-depth view of the M&A process and the work of managers perhaps more practical than theoretical and therefore as mentioned suitable for companies to make use of.

8.3 Further studies

An idea for further studies would be to research M&A process from finish to end no matter how long time it took (5-10) years. Of course that would me a major project but it could be interesting. One could also look into just one of these M&As and go more in-depth into the process perhaps into only on part of the processes even.
As the due diligence stage is a quite new term in the M&A process and that the importance of this stage have increased during the recent years a further study could be on focusing more in-depth on how this stage works. Consequently analyse how the financial, the HRM, and the tax due diligence is conducted and what areas should be focused upon in each domain.

Another research approach could be that the researcher could try to create some kind of evaluation sheet for companies to use when evaluating and analysing their own M&A process.
References


Appendix 1 - Interview guide

Introduction

• Are we allowed to disclose your name in the report or do you want to remain anonymous
• Are we allowed to record this interview
• What role did you have during the M&A

M&A objective and Cross border

• Why did Sweden International Inc decide to M&A? What was the objective behind the deal?
• Why did Sweden International Inc choose to M&A with a foreign company and not a company from the home country?
• Did you see any potential benefits with the cross-border M&A that you would not have had if Sweden International Inc had M&A with a domestic company?
• Do you consider Sweden International Inc to be a Swedish company? Why?
• How do you define Sweden International Inc’s home market?
• What do you consider cross-border to be?

Integration

• Do you have an integration process?
• When did the integration process start? How and why?
• When did the integration process stop? How and why?
• To what degree has the two different companies been integrated? Why?
• Which integration issues have you experienced during the M&A process?
• How has the management dealt with the integration issues?
• What has the two different corporate cultures meant to the integration process?
• When starting the integration process, how was it decided in which order the different functions and activities would be integrated?
• Do you feel that the integration process was an important regarding the creation of synergy effects? (What were the important issues in the integration process when creating synergy?)
Synergy

- What do you believe synergy is?
- What synergy effects did you expect from the M&A?
- Did these expected synergy effects become realized or not?
- What did the management team do to create these synergies?
- (If the synergies were not created) Why do you think the synergies were not realized?
- What do you see as the main source of synergy in the M&A?
- Was there a strategic fit between Sweden International Inc and the other company? What was the other company’s strength, weaknesses and capabilities? Different or similar?
- Was there an organisational fit between Sweden International Inc and the other company? Did they have different or similar management processes, cultures, systems and structure?
- What managerial actions were taken to realize synergy? How active were they in trying to recognise problems in the M&A process?
- Has the benefits of the synergistic effects outweighed the costs? Have the financing of the M&A deal and the cost of integration cost more than the benefits you have received from synergies?
- Did Sweden International Inc have an M&A strategy? What was that strategy?
- What had been done to understand the market and environment of the new company?
- Did Sweden International Inc bring in a third party to help with the deal?
- How did Sweden International Inc manage the cultural issues?
- How did the management team deal with the strategic planning, integration and did they look at the response from competitors?
- Were there a special management team working with the M&A integration and synergy realization process?
- How was the employees informed about the M&A?
- Were potential synergies discussed before the deal?