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DIMINISHING VALUE DESTRUCTION IN THE M&A PROCESS:

The role of pre-M&A business relationships in the biotechnologyindustry

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ABSTRACT

Mergers and acquisitions (M&As) are popular means to potentially and immediately increase profitability of the firm today. Interestingly, the popularity of M&As does not seem to be affected by the fact that a surprisingly large part of the synergies expected from M&As are never fulfilled. Research has indicated a tendency among management to overlook the risks of value destruction after the deal is signed. In relation to this, the importance of considering factors affecting human actions and reactions has been emphasized.

Current research in the business relationship and network fields has indicated that relationships have an influential role in the development of firms. The extent of previous relationship between the two parts has further been indicated to impact acquisition behaviour and its consequences. This, together with the importance of human factors in the M&A process, forms the platform from which our research departs. Hence, the purpose of this study is to explore the role of pre-M&A social relationships in the M&A process. In doing so we seek to deepen the current understanding of the processes and phenomena influencing the efficiency of M&A processes.

Our findings are based on empirical data from four case studies and point to an important role of pre-M&A social relations in the M&A process. Firstly, during a pre-M&A relationship, soft synergies can be revealed and identified as they are put in practice. Hence, future potential can more accurately be evaluated in real-life situations before an M&A deal is signed, as such issues are difficult to predict from financial reports and balance sheets. Secondly, the social relations visualised opportunities for M&A for both selling and acquiring firms. Thirdly, it was also evident that the social relations partly contributed to open communication and a shortening of the first phase of the M&A process.

Keywords: Mergers and acquisitions, process view, value destruction, business networks, business relationships, pre-M&A relationships, social relations, social capital.

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Gothenburg, 5th of December, 2003

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1 INTRODUCTION

This chapter provides the reader with the research background as well as the main research problem. Purpose and contribution will also be outlined. Finally, the reader is also introduced to the biotechnology industry and the choice of this industry is justified.

1.1 Research background

Today, firms must constantly stay ahead of competitors to survive in the increasingly competitive and global market. Mergers and acquisitions (M&As) are perceived in this challenge as a potential and immediate increase in profitability for the firm and have thus become popular. Almost every day you hear or read about companies involved in M&A activity. However, a surprisingly large part of the expected synergies are never fulfilled. Instead, market shares are diminishing, key personnel leave, and successful innovation is slowed down. It has been estimated that M&As fail in more than two out of three cases. Interestingly though, the popularity of M&As does not seem to be affected by this (Berggren *et al* 2003).

Stemming from this is a large academic interest, aiming to understand the processes behind M&As and, as such, explaining the high failure rate. It is evident however that neither academics nor practitioners have yet achieved a thorough understanding of the aspects involved in planning and implementing a successful merger.

Nevertheless, what research *has* indicated is, among other things, a tendency of management to overlook the risks of value destruction after the deal is signed. Instead, most time and effort is spent on search, screening, negotiations, and finally the closing of the agreement. Following this insight, much research has concentrated on the M&A integration process. Integration is when the two companies are to function together and create the expected value. In fact, the integration process has been argued to be the key to making M&As work (Haspeslagh and Jemison 1991). This is because value will not be created until capabilities are transferred and people from both organisations collaborate in order to create the expected benefits (Salama *et al* 2003). The integration is dependent on human processes and to achieve an atmosphere suitable for the transfer of strategic capabilities, it is vital that employees from both firms understand each other and really want to work together (Haspeslagh and Jemison 1991). However, in many cases the opposite happens. Stress, tension, and cultural clashes are common, threatening the long-term value creation and the competitive advantage of the firm (Buono and Bowditch 1989).

Problems arising due to such "people issues" can be reduced by formulating and implementing an integration strategy aimed at winning trust, building commitment, and keeping employees focused on the job. Management commonly considers this first after the deal is signed. However, to be efficient, it should be part of the M&A strategy right from the beginning (Hutchison 2002). Factors affecting human actions and reactions are important to consider if one wishes to further reveal and understand what is influencing the M&A process.

Research conducted by Andersson, U *et al* (1997) has further indicated that the extent of previous business relationship between the two parts impact acquisition behaviour and its consequences. Their findings, together with the importance of human factors in the M&A process, form an interesting platform for future research. Most of the commonly occurring problems in the M&A process have social roots; it is hence likely that the solutions have social elements as well. We will depart from this platform when continuing the attempts to resolve some of the riddles of value creation and destruction in M&As.

1.2 Focus chosen

Before presenting our main research problem we will present the chosen focus. The current academic research in the business relationship and network fields has indicated influential roles for relationships in the development of firms. These relationships are likely to comprise many aspects (Johanson and Vahlne 1977, Anderson 1994, Andersson 1997).

However, in this argumentation we believe social aspects are missing. Further, the extensive evidence of "human-related" problems in the M&A process has led us to wonder if there could be a deeper social aspect in business relationships which could play an important role in the M&A process. Much of what has been recommended in literature to avoid "people-issues" points to the importance of social interaction. Logically, if the two firms have had a pre-M&A business relationship, interaction is likely to have been a large part of it, in addition to factors considered in earlier research.

This study will continue on from current research, but will focus on the social aspects of the previous relationship.

1.3 Research problem

Following this reasoning our main research problem is:

> ***What is the role of pre-M&A relationship in the M&A process?***

To enable an investigation of the above, an understanding of the M&A process itself is necessary. The following question will thus be answered theoretically:

- *What are the phases of the M&A process and where and why are problems likely to arise?*

Further, an understanding of what business relationships entail and how and why they are likely to play a role in the M&A process, is needed. Hence, following questions will also be theoretically answered:

- *What do business relationships entail?*
- *What benefits and risks are business relationships likely to bring? How and why are they likely to influence the M&A process?*

Following this, the theoretical understanding will be confronted and, in turn, revised and complemented with an empirical study. With this, the main research problem will be answered. In the end, conclusions will be summarised in the form of propositions, which can be tested in future research.

1.4 Purpose and Contribution

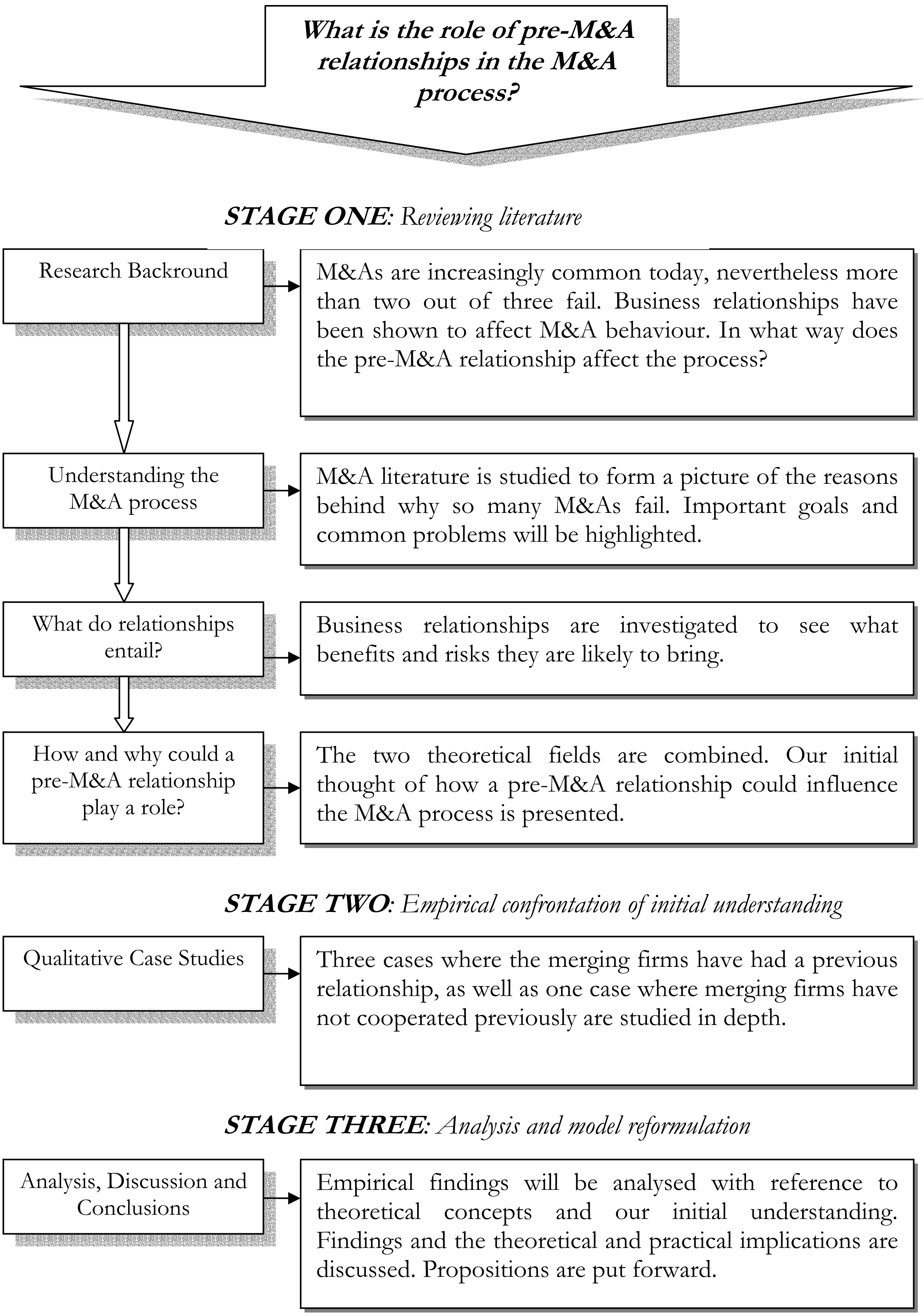
The purpose of this thesis is to explore what role a pre-M&A relationship can potentially play in the M&A process. In doing this, we seek to deepen the current understanding of the processes and factors influencing the efficiency of M&A processes.

To our knowledge, no empirical studies have been reported neither in business relationship research nor within the M&A literature, dealing in this way with the effect of pre-M&A relationships in the M&A process. M&As continue to be important strategies to reach new markets and improve market positions and knowledge. An understanding of how value is created, and also potentially destroyed, in the M&A process is thus vital for the long-term value creation in the firm. This thesis specifically provides management with an insight in the value of business relationships and how these can be utilised in the M&A process to enhance value creation. The thesis will thus be of interest to firms in the process of an M&A, for cooperating firms foreseeing a closer relationship in the future, as well as for companies anticipating M&A activity.

The thesis will further contribute to research by highlighting the directions of possible future studies and provide theoretical contributions to the current literature.

To further clarify how we have worked throughout the thesis writing and how this thesis is consequently built up, we next present the research model.

1.5 Research model



1.6 The biotechnology industry

1.6.1 Definition of biotechnology

Broadly defined, biotechnology (Bt) is the manipulation of living organisms, or parts thereof, for the production of goods and services (Bartholomew, 1997). This definition has been narrowed down and now includes three different technologies of recombinant DNA, monoclonal antibodies, and protein engineering. These three technologies form the basis for a wide range of treatments, diagnostics, and research discovery techniques today as well as products developed within the areas of, for example, health care, crop production and protection, food processing, and waste management. Hence, firms that engage in the research, development, and commercialisation of such processes and products are active within the Bt industry (Liebeskind *et al*, 1996).

1.6.2 Initial assumptions of industry situation

Cooperation is often seen as the key to success within the Bt industry in general. The Swedish Bt market has an especially unique and well-known tradition of formal, as well as informal, cooperation between leading universities and researchers and companies within the industry (Boklund 2003). Consequently, we started our thesis writing with the founding assumption that cooperation and collaboration is common between Swedish firms in the Swedish Bt industry and that this cooperation in a later stage may develop or lead to M&A activity between the firms. This led us to think that the Swedish Bt industry would be suitable for investigating the role of pre-M&A social relations in the M&A process. With these assumptions in mind, we mapped the M&A activity where Swedish Bt companies had been involved. It turned out that most M&A activity had occurred during the last two to three years. Further, to our surprise, most cases identified involved a foreign company, that is, most M&A were not between Swedish companies. The investigation also showed that only in a few cases had cooperation preceded the M&A. This is despite the fact that collaboration and cooperation were recognised to be important and common within this industry. At this stage, we started to question our initial assumptions about the industry and, after a deeper look into the competitive situation of the Swedish as well as the global Bt industry, we realised that our findings above reflect the current situation within the industry very well, which will be further explained below.

1.6.3 Competitive situation

North America is by far the largest Bt market in the world (Johnzon 2002), even larger than Europe and Japan together. In Europe; Germany, UK, France, and Sweden are the largest markets with respect to the number of Bt companies. However, on a per capita basis, or relative to GDP, Sweden is actually the most Bt-intensive country in Europe (Boklund 2003).

The global Bt market has undergone explosive growth in the past five years and the number of companies and marketed products has grown considerably. The industry is characterised by rapid technological innovation which constantly threatens to turn current products out of date as product life cycles become shorter and shorter. Bt firms are therefore constantly under pressure to innovate and bring forward new patents and valuable products. The strict property rights regimes within the industry further mean that competitors increasingly seek to take advantage of know-how that has not yet been patented. Bt firms therefore also need to protect themselves from appropriation (Liebeskind *et al* 1996).

This hyper-competition means the supply of scientific knowledge is a critical aspect for a Bt firm's survival. However, the intellectual resources available are immobile since the number of "star researchers" within Bt is relatively limited. Further, the rapid pace of innovation requires Bt companies to be flexible, thus minimizing sunk cost investments in the different lines of research. Hence, Bt firms are dependent on developing and being part of networks in order to source this valuable external knowledge (Liebeskind *et al* 1996). The competitive conditions within the industry have resulted in an increasing number of strategic alliances and close relationships with leading universities, researchers, and other Bt or pharmaceutical firms. Actually, alliances and collaboration are viewed as key components in the strategies of pharmaceutical and Bt companies (Brownlee 2003), and so will also be discussed further on in the literature review (see chapter 4). Having explained the competitive situation within the industry, we have also justified our choice of this industry for identifying suitable cases for this thesis.

1.6.4 Industry consolidation

The Bt industry is going through a consolidation phase. During 2001, the big pharmaceutical companies faced declining revenues and an increased pressure for new products, especially since several important patents expired in 2002. As a consequence, Bt innovation is an important source of new product technologies for traditional pharmaceutical companies. Hence, Bt has now achieved a market strength, which is growing compared to that of traditional pharmaceuticals. The big pharmaceutical companies are trying to solve their problems and access new products through strategic partnerships, as discussed above, or via acquisitions of smaller Bt companies (Global Perspectives on Bioscience 2002).

Consolidation is not only seen between pharmaceutical and Bt companies but also more and more between Bt companies. The main reason is the serious lack of funding within the industry. This is not just seen in Sweden, but also in other parts of Europe and the USA. Advances over the last 20 years have been possible in Bt only due to the large amount of investment in this sector. However, the investment climate and availability of funding looks different today compared to the last part of the 1990's. Hence, investors will and are indeed demanding Bt companies to merge to achieve the "critical mass". Consequently, consolidation might be the only way to gain access to future financing, liquidity, and survival in a global perspective (Champsi 1998, Johnzon 2002, Espander and Urdmark 2003).

Even though it seems like lack of finance is the sole reason behind the consolidation observed, there might be other explanations as well. A potential reason could be, for example, that it in itself further drives the trend; when firms or individuals are unsure of the environment, they tend to do as other people do. They become caught up in the "general direction and behavioural mode" of the industry. This merger-mania is also affected by media. Political, personal, and legitimating actions are other potential drivers (Haunschild 1997).

The consolidation trend described above is so far mostly noticeable in the USA however (Belusa and Andersson 2003). The same development is expected in Europe and Sweden, but has just started, as indicated by our initial findings. In fact, Sweden is about ten years behind the USA in this respect. At present, the Swedish Bt market is instead characterised by a number of small young companies that originate in the two giants, Astra and Pharmacia. Very few Swedish Bt companies have the resources and capital to acquire other firms

(Hedman 2003). Instead, foreign firms step in, and so the current Swedish Bt M&A activity spotted by us, in many cases, involved foreign firms.

2 METHODOLOGY

This chapter guides the reader through our work and thought process of writing and conducting the thesis. The set up and preparation of the study, as well as our choices regarding research strategy, method, and approach are presented and justified. Further, important aspects of selecting case companies, the analysis and quality of the research are discussed.

2.1 The research process

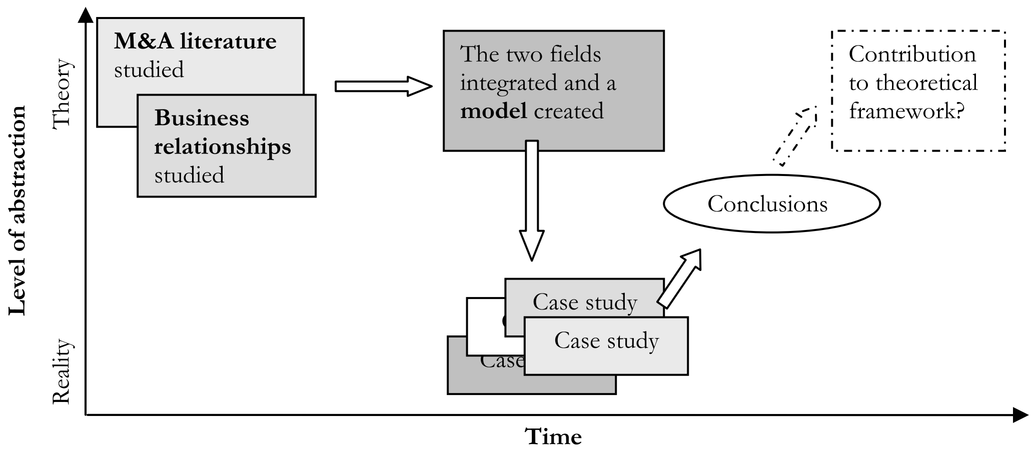
As explained in the introduction, we believe it is time to combine two major fields of research within the area of business studies. A literature review was therefore conducted, covering M&As and business relationships. From this we formed our initial understanding of the M&A process but also of what business relationships entail. This, in turn, enabled us to create our own theoretical understanding of what prospective roles a pre-M&A relationship could play in the M&A process. Next, this theoretical understanding was confronted by an empirical study. The analysis and reflections over the results led us to formulate propositions, on which future studies may continue.

To do the empirical study, a map of M&A activity within the Swedish-based Bt industry (involving Swedish firms) was constructed. This was done by searching in relevant magazines, newspapers, databases, and the internet. We also contacted a number of knowledgeable persons, consultants, and organisations such as Uppsvenska Handelskammaren, Näringslivsenheten in Uppsala, Business Region Göteborg, and Medicon Valley. When the search continuously resulted in the same cases we considered it complete. The result was 22 potential cases. From these, Bt M&As where companies had previously cooperated, and Bt M&As without such pre-M&A cooperation, were identified. Being close to an end of the investigation of the Swedish Bt industry, we had to change our initial assumptions about the status and cooperative situation. To strengthen our arguments and gain a further understanding of our results, we conducted two telephone interviews with people working with Bt clusters as well as with two people working in such clusters. Even though very interesting, we had to leave this subject at this point, as it was not the focus of this thesis.
The dynamics of the industry chosen made it more difficult to reach and get companies to participate than first appreciated. An illustrative example of this is when we spoke to the CEO of Pyrosequencing while he was running to a business meeting. The next day he was on the front page of Dagens Industri in an article about the acquisition he had made the day before.

Nonetheless, three case companies from the Bt industry (two with a previous relationship and one without) were selected and willing to participate in the study. In addition, a fourth case from another industry (engineering) was added. If findings across industries in this case turned out similar, it would increase the validity of the study.

Confronting our initial understanding with the cases, reality showed a somewhat different picture, as compared to our initial understanding. Accordingly, our theoretical understanding was refined, which is reflected in the analysis, discussion, and the final propositions.

Figure 1: *The thesis process*



Source: Adapted from methodology course, GBS:IB (2003)

As illustrated above in figure 1, the thesis process started in theory, we confronted the understanding with empirical findings and finally concluded at the theoretical level. However, a constant move between theory and reality always occurs. It is also important to point out that the initial literature review, and our thoughts and understanding of the problem were not guided or influenced by case companies and their conditions, as these at that time had not been selected.

2.1.1 Literature review

Yin (1989) emphasises the importance of not reviewing literature to determine the answers about what is known on a topic. Instead, the aim should be to develop sharper and more insightful questions about the topic. This is achieved in this thesis with the creation of our theoretical understanding, the subsequent confrontation, and finally reflection over analysis and theoretical concepts. By combining two research areas in this way, it is our belief that we have not only presented existing research and theory within the areas, but also reflected over it and created our own understanding. The literature review also provided a robust foundation and framework from which to confront this understanding.

2.2 The choice of a case study strategy

The main research question is *"What is the role of a pre-M&A relationship in the M&A process"*. To answer the questions, how and why must also be asked, which makes the question explanatory. The former formulation avoids such dilemma. We found the case study to be the best-suited strategy for our study, especially since it involved rather complex phenomena such as finding out about social factors, human feelings, and perceptions. Further, we needed to trace the respondent's perceptions of what had happened in the previous relationship as well as in the M&A process, which is a development over time. All these aspects are hard to capture without in-depth interviews. We are thus in line with Yin's (1989) view that case studies should be used when the phenomenon to be studied is contemporary, does not require control over behaviour, and answers the questions *how* and *why*. Following the above arguments, the research method chosen is qualitative. This gives us the much needed opportunity to get close to what is being investigated and really understand the people's and the organisation's situation. Holme *et al* (1997) also recommend this method with this kind of study.

2.2.1 Selecting cases

A distinction can be made between multiple and single case studies as well as between holistic and embedded case studies (Yin 1989). This study is regarded as embedded. We pay attention to whole organisations, but in trying to answer the main research problem, individuals within them naturally also have to be considered. Further, our study should be seen as a prelude to further studies within the area. It could thus be based on a single case study. However, several aspects made us believe that a multiple case study would benefit the final result. As mentioned, the dynamics and fast movement of the Bt industry meant we could not fully cover the concerns of a single case study (Yin, 1989). Our investigation of the Bt industry also contributed to the belief that a single case study might turn out to be misrepresentative. Therefore in order to get as deep an insight as possible into the area of investigation we chose multiple case studies.

The following criteria for cases to be considered as candidates were set up:

1. *M&As with and without previous relationship*. This condition was set up to enable a comparative analysis.
2. *Integration should have occurred to some degree*. A large part of the investigation aims to analyse the influence of a pre-M&A relationship on the M&A process. The integration is seen as an important part of this.
3. *Time restriction*. The M&A should preferably be completed, but not too long ago. If time span is too long, facts, information, feelings, and other aspects are easily forgotten. Similarly, involved individuals might not be with the firm any longer.

We managed to fulfil all these criteria with the cases included in the study. However, it should be pointed out that in the International corp.-Bioteknik AB case the integration of the two firms is not completed. Further, the Abigo-DHC and Active-Nedermann cases occurred in the 1980-90's. However, this has not appeared to be a problem. In the Wilh.Sonesson-Bioglan case there are currently very low levels of integration, however higher levels were earlier attempted.

Further, two cases involved foreign companies. However, this just added an interesting angle to the problem investigated. It could be that different national cultures will make the M&A process more difficult, hence potentially making a pre-M&A relationship even more influential.

2.2.2 Choice of respondents

At the outset of our thesis writing, we found it important to not focus the interviews on top management only, since much of the success or failure of the integration of the two companies actually lies in how the employees are coping with the situation. Hence, our intention was to interview managers, integration-coordinators or "key-employees" as well as other employees involved in or affected by the pre-M&A relationship and the M&A process. Further, we wished to interview persons at both the acquired and the acquiring firm in order to get as balanced a picture as possible.

Regarding our choice of respondents, it should be noted that in some cases we were limited by the time and persons available to us. We were especially limited in that we unfortunately did not get to see as many employees as we had wished for. However, due to the nature of the relationships, we do not believe this has affected the final result to a large extent.

Table 1: *Participants from Abigo-DHC*

Name	Current Position	Involvement
Jan Smith	CEO, Abigo's owner	Involved before and after.
Leif Smith	CEO, Abigo's owner	Involved before and after.
Annegrethe Andersen	DHC Marketing manager, sales assistant during previous relationship.	Involved before and after.
Lars Kirkeby	Responsible for bookkeeping, purchasing, stock and invoicing at DHC.	Involved before and after.

In the Abigo-DHC case we met everyone from both firms who were involved in both the previous relationship and still work at either firm.

Table 2: *Participants from International corp.-Bioteknik AB*

Name	Position	Involvement
Anna	CEO, Bioteknik AB	Not involved in the earlier relationship. Overall responsible for Bioteknik AB and integration from their side.
Bertil	Division manager; biologics, International corp.	Practically the only person from International corp. involved in the earlier relationship.
Denise	R&D and Production manager, Bioteknik AB	Bioteknik AB 's first employee. One of a few involved in the earlier relationship. Responsible for integration of R&D.
Clara	Quality controller, Bioteknik AB	Neither involved in previous relationship nor responsible.

Since the motive behind International corp's acquisition of Bioteknik AB was mainly to acquire their biologics department, which is the same as Bioteknik AB's R&D department, we feel that we got to interview relevant people. In addition, we also got to see one employee, who was not involved in the pre-M&A relationship or part of any integration team. Nevertheless she gave us interesting insights into the general employee situation before and after the acquisition.

Table 3: *Participants from Wilh.Sonesson-Bioglan*

Name	Current Position	Involvement

Lennart Molvin	Business development manager, WS	Responsible for M&A.
Totte Malmström	CEO, Bioglan	Responsible for M&A.

In the Wilh.Sonesson-Bioglan case we met two of the managers involved in, and mainly responsible for, the acquisition. No previous relationship existed in this case.

Table 4: *Participants from Active-Nederman*

Name	Position at time of acquisition	Involvement
Lennart Molvin	Consultant at Active	Involved before and after.
Acke Nyberg	Marketing director Nederman	Involved before and after.
Lars-Erik Andersson	CEO of Nederman	Involved before and after.

Lennart was interviewed about the Wilh.Sonesson-Nederman acquisition as well, since he was also in this case one of the most relevant persons to talk to. From Nederman, relevant and available persons with good knowledge about the relationship between the companies before the acquisition and also about what happened after were interviewed.

Subjects interviewed about the Swedish Bt industry, its structure, cooperative nature, and future development were the following:

Table 5: *Subjects interviewed regarding Swedish Bt industry and clusters*

Name	Position
Christer Hedman	Project leader for "Medicinsk framtid i väst", at Business Region Göteborg
Kent Olsson	MD Sahlgrenska Science Park
Denise	Works in Medicon Valley
Totte Malmström	Works in Lund Science park

2.3 Preparing interviews to investigate "soft" issues

A potentially complicating factor is that this thesis deals with issues that are somewhat hard to measure or investigate; how does one go about investigating the role of a relationship in a M&A process? What is a relationship and what does it entail? Much involves subjective feelings and experiences, rather than quantifiable measures. These problems are commonly occurring in social science and we, as others, can only find the best-suited method or combination of methods, as *there is no perfect method*. This further motivates the choice of multiple qualitative case studies.

It was our belief that semi-structured in-depth interviews best suited the problem at hand and that they would provide as a rich picture of the reality as possible. Questions used were open, but nonetheless aimed at getting detailed and focused information. Questions avoided imposing our thoughts and theoretical concepts on subjects; instead we tried to ask around important areas and aspects. Similarly, we did not narrow interviews too much. We still wished to be able to capture interesting angles and questions.

Before using the interview guide in the real interviews, we carefully tested it on two pilot respondents. Judging from the answers, we are confident that we have been able to capture the roles of the pre-M&A relationship to a satisfactory level, if there were any. Therefore, we believe our interview guide provided empirical data of the expected quality. For further details please see Appendix A.

2.3.1 The interview situation

When conducting the interviews we strived to achieve a casual and normal atmosphere. This is why in some instances we avoided using a tape recorder. We conducted the interviews in conference rooms, offices, in subject's homes, and in restaurants. There were no disturbances in the form of other employees or people in any instances. In this way, we hope we did not sway the respondents' answers in any way. Instead, in line with what is recommended by Holme *et al* (1997), we wanted the respondents to express their views based on their own perceptions and we therefore let the respondents lead the direction of the conversation as much as possible. Even though we had an interview guide when conducting the interviews, we tried to be open to new insights or directions.

Directly after each interview, we individually interpreted the results and then compared and discussed its meanings before presenting it in the empirical part of the thesis. Where missing pieces of information were found, where we were unsure of what the subject meant, and, importantly, where interesting new angles were detected complementary interviews were conducted via phone or e-mail. Additionally, cases were sent to participants when finished. This gave them the opportunity to check facts, details, and interpretations and they could clarify their answers. We argue that this has strengthened the quality of the thesis.

2.4 Reflections regarding the quality of the research

2.4.1 Methodological limitations

A potential problem with the interviews was that the issues under investigation were sometimes hard to communicate and experienced as "blurry" by subjects. It can then be hard for subjects to fully understand questions and they might not feel the issues are important. This may have biased the answers. On the other hand, these issues can also be hard for the interviewer to explain objectively without emphasising specific issues, which in turn might bias the subjects. These problems can be overcome by longitudinal studies or observational studies, where researchers can "shadow" the organisation and processes of interest. This is a very good approach in sociological and organisational studies where human behaviour, actions, reactions, and emotions are studied (Holme *et al* 1997). This is very time consuming and not appropriate in this study however.

Conducting research is almost impossible without being biased. This can be a result of the focus chosen and subjectivity can never completely be eliminated. Thus, you tend to find what you look for. This is shown to some extent in this thesis as the weight given to social influences. Other aspects of business relationships have nonetheless been considered, especially during the empirical study when we tried to keep an open mind. However, social capital and social factors are the aspects of business relationships we have chosen to focus upon. We have worked continuously throughout the research to limit the bias effects, and have never argued that social capital and social factors *alone* are important. The relationship in its totality, as well as a wealth of other factors and circumstances, also influence the M&A process and should not be forgotten. However, in order to conduct an in-depth study, focus and delimitations are necessary.

Another potential bias of this thesis is the access to subjects to interview in both firms to interview. Even though we have tried hard to understand both sides of the relation, we nevertheless are aware that in some cases one side has been emphasised. This could have also coloured our findings. Finally, two cases investigated events that occurred more than ten years ago. The facts and details remembered are thus likely to be coloured by time, as it might be easier to remember the good things.

2.4.2 Validity

As we have explained the M&A process and what a business relationship entails, we feel we have strengthened the construct validity of the thesis. In this way the reader is able to judge whether we have collected evidence that reflects these statements (Yin 1989). We have further strengthened construct validity through using multiple sources of evidence, as we were able to make direct observations at the offices and use secondary sources of information in addition to the interviews.

External validity has to do with whether a study's findings can be generalised beyond the immediate case study. This should not be confused with quantitative studies, which are statistically generalisable. Instead, qualitative studies can rely upon analytical generalisation (Yin 1989). The external validity is strengthened in this thesis through the use of multiple case studies, specifically, it is strengthened by the inclusion of an "outside" case from another industry.

2.4.3 Reliability

Judging reliability involves evaluating whether the same conclusions would be drawn if another researcher conducted everything we have done, in the same way, and investigated the same cases. As seen, we have therefore thoroughly documented our research process, including subjects interviewed, in order to strengthen the reliability of this thesis.

3 MERGERS AND ACQUISITIONS

Chapter three provides a general picture of the M&A process and defines the concepts within the field. The literature review then examines both the pre- and post-agreement phases of the M&A process.

3.1 The M&A concept

As highlighted, Bt firms must constantly stay ahead of competitors to survive today's increasingly competitive and global market environment. M&As have become a common occurrence in the strategic change process to cope with these challenges, however motives are still diverse (such as market expansion or tapping into knowledge, see below).

Mergers and acquisitions are often referred to as one concept, "*M&As*", even though they are two separate occurrences. A merger can be defined as *"a statutory combination of two (or more) corporations, either by the transfer of all assets to one surviving corporation or by the joining together of the firms into a single new enterprise"*. An acquisition is *"when one firm buys enough shares to gain control over another"* (Gertsen *et al* 1998 in Schweizer lecture 2003). The differences are that in a merger the parts are equally powerful and the agreement is cooperative, while in an acquisition one part dominates the other. However, if the firm for sale has many interested buyers and the power to decide whom to be acquired by, the power balance can be more equal also in an acquisition, making it more like a merger. As the process issues and problems in making the new organisation functional are similar in both mergers and acquisitions, they are treated as one concept in the literature. In fact, problems are common and even though M&As are frequent, two out of three fail (Berggren *et al* 2003). This suggests that neither academics nor practitioners have a thorough understanding yet of the variables involved in planning and implementing a successful merger. This is also the foundation for our interest in these processes. The literature review below summarises the current academic understanding of the M&A processes and reasons behind the high failure rate.

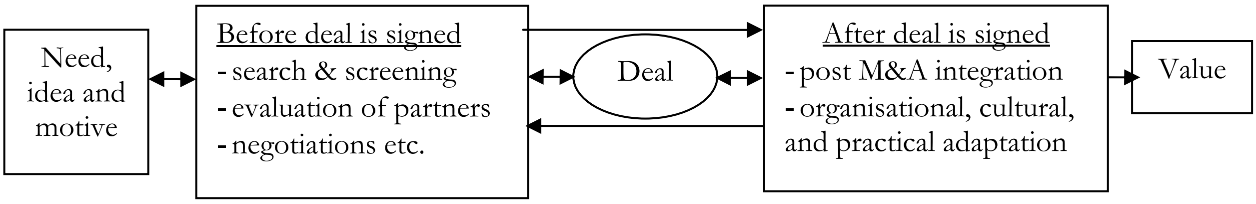
3.2 The process view

Traditionally, the M&A process was seen as a process directed and driven by economic analysis and rational decision making. Today, however, researchers are suggesting other explanations and look at the processes in the firm from other perspectives. Within the M&A literature, one such perspective is the process view. This view emphasises that instead of analysing just the environment, motive, and strategic fit between the two firms, the M&A process in itself has to be analysed and considered, as this is tremendously influential for value creation. It can be seen as a shift from looking at the result to instead regarding the drivers of the result (Haspeslagh and Jemison 1991). This also justifies why we have chosen to focus on the process itself and not the outcome, as a more successful outcome inevitably goes via a successful and smooth process. It might however be possible to reach an initial positive outcome without a successful process – but it is our belief that for an optimal result and long-term value, a smooth process is necessary.

A merger, or acquisition, is not just a decision to buy another firm or merge two firms, it is a long process which could in fact take years to complete. It is the actions and activities that this decision or deal initiates that actually is *the M&A* and also the goal of the deal. The traditional view points a lot of attention to pre-M&A analysis of strategic fit, financial valuation, and price but forgets the organisational and human issues involved (Haspeslagh and Jemison 1991). Further, circumstances and conditions constantly change and human related issues cannot always be predicted, therefore synergies cannot be estimated until actually put in practise. This has become apparent not least by the high failure rate of M&As, as surely they were all initiated with the aim and estimation that the deal would create value, not the opposite.

In accordance with the process view, we can then divide the M&A process into two major stages, before and after the deal is signed. The phases and stages within them interact and influence the outcome of each other, see figure 2. A lot of research has reasoned for this perspective where, for example, one study looked at how the negotiation phase of the M&A process affected the post-integration management turnover. The study found that negotiations indeed affect the turnover, and the peak of top management lost came four years after the M&A negotiations were closed (Walsh 1989).

Figure 2: *The M&A Process*



Source: Figure adapted from Haspeslagh and Jemison (1991) figure 1-1, p12.

3.3 Need, idea, and motive; before the deal is signed

M&As are perceived as an appealing way to potentially and immediately increase profitability of the firm. M&As could also be the solution to a need for specific knowledge, technology, or any other factor within the firm. M&As can quickly extend the market, product portfolio, and knowledge of the firm. M&As are used to create and exploit synergies, to achieve critical mass, to gain foothold in other countries, to protect markets by eliminating rivals or contribute to the efficiency of the business (Schweizer 2003).

Once the idea or need for M&A has been identified, the firm must screen and search for a suitable partner. Further, before entering negotiations, the strategic and organisational fit between the firm and the potential partner must be considered and analysed (Jemison and Sitkin 1986). However, contradicting Jemison and Sitkin (1986), we think this should be done not because the two parts must be similar for success to be achieved but rather because the similarities and differences must be considered so that a suitable integration strategy can be applied. All this has to be analysed while simultaneously considering how it will affect the acquisition process and also how the acquisition process in turn will affect the strategic and organisational fit as well as the negotiation and all other processes. Thus, before signing the agreement all factors that can potentially affect the value creating process must be considered.

At this stage of the deal, Jemison and Sitkin (1986) point to four common phenomena that can aggravate difficulties occurring during the M&A process. The first is the fact that the complexity of M&As often leads the firm to *rely on a number of experts* (such as outside consultants and company taskforces) and divide the work load within the company. This is a natural way and, in some instances, the only way to cope with the situation. However, this segmentation of tasks also means that no one has a complete picture of the factors involved, thus the advice given from experts might not be optimal. Often, senior CEO's from the two firms are the only ones involved with a good understanding of the process. This means that outside groups (experts) that move in and out of the process, as required, can have a lot of influence, even though their concern might not be a successful overall integration (Jemison and Sitkin 1986). Further, since activities take place sequentially and groups can work independently, little communication between them is likely to occur. This view is also held by Stoiber (1999), who says that the process of closing a deal is subject to much uncertainty. However, narrowing down the number of people involved in the negotiation is likely to benefit the parties as it reduces complexity. On the other hand, it can equally be argued that outside experts with a different perspective are indeed positive elements as these provide CEO's with different ways of looking at the processes. In such cases, it is important that managers always have the end result in mind when weighing advice from these experts.

The second issue highlighted by Jemison and Sitkin (1986) is that many *M&A processes are rushed* due to the energy that stimulates the driving force of the process. These forces are many, for example, participant commitment, engagement and ego, stubbornness and unwillingness to walk away, secrecy which is hard to prolong, and ambiguity. These forces can result in premature solutions, less thought through integration process, and, in the end, lower chances for value creation.

Expectational ambiguity is the third factor, or force, in the pre-agreement phase that can affect value creation and thus the outcome of the deal. When entering into negotiations ambiguity is important. It leaves room to discuss differing expectations of what the deal will mean for the firms as a whole. However, once integration starts, this ambiguity becomes a deteriorating force and is a major source of conflict. Trust built under the pre-agreement phase can thus break down when parties interpret points differently (Jemison and Sitkin 1986).

Finally, the same authors highlight the *misapplication of management systems* as an impediment to successful M&As. A parent firm's defensiveness of their skills and managerial, cultural, and organisational arrogance can lead to misapplication of management systems and the imposition of the parent's approaches and practices on the acquired firm. This creates hostile feelings and resistance in the acquired unit. For example face-to-face contact could facilitate and ease this whole stage; it makes it easier to resolve issues (Stoiber 1999).

3.4 Post agreement M&A issues

As we have highlighted, a lot of top management time and effort is often spent on the searching, screening, negotiation, and closing of the agreement. In such cases the integration process is often merely treated as something which "of course will occur" or as the "black box of M&As" where things just seem to happen (Pablo 1994, Haspeslagh and Jemison 1991). It might be that business leaders become so occupied and engaged in the deal that they take for granted that the rest of the organisation is too.

Following this trend has been an academic interest in the integration process in M&As and attitudes are changing today. Indeed many business leaders see the significance of the integration process as a value creating activity and the process where much of the winnings of the M&A can be recouped. In fact, the integration process has been argued to be the key to making acquisitions work (Haspeslagh and Jemison 1991). This is because the possibility of future value is not created until capabilities are transferred and people from both organisations collaborate in order to create the expected benefits (Salama *et al* 2003).

Cultural integration, or "acculturation", is crucial for this strategic goal and there has been a debate on whether the best approach is to find a "cultural compatible partner" (Cartwright and Cooper 1993) or to manage cultural differences (Buono and Bowditch 1989). Like many others (e.g. Salama *et al* 2003, Buono and Bowditch 1989), we have taken the standpoint that dealing with and managing cultural differences is the most strategically beneficial approach to M&A integration. This is justified not least by the fact that mergers between Scandinavian firms, which are very similar in culture, fail without an active cultural integration process. When cultures are perceived to be similar, cultural negligence can have disastrous effects on the outcome of the merger (Jönsson 2003).

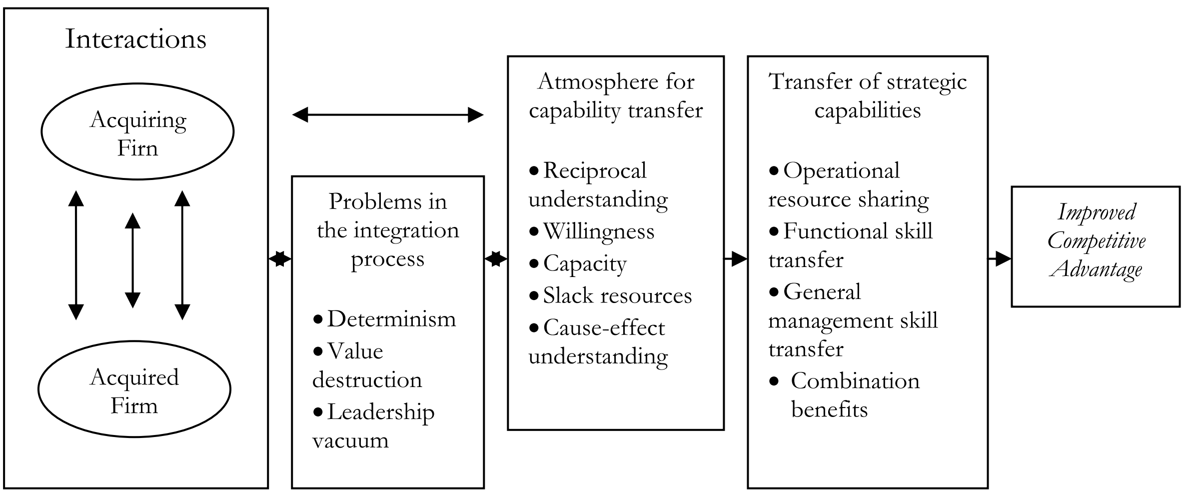
3.4.1 The integration process

The M&A integration process is a delicate and hard-to-manage situation but is nevertheless vital for the value creation in the firm. However, judging from the high failure rate, it can be concluded that there is currently a lack of comprehensive management literature on the subject, which follows the fact that the subject still requires deep understanding and further research. It is also important to point out that there is no single success formula and most likely never will be. Each M&A integration process is unique with regard to motive, resources, location, culture, etc. and thus must be treated individually.

Nevertheless, for a M&A to succeed, the two organisations must learn to effectively work together and cooperate. Being aware of how value is created in the integration, in which there must be a transfer of strategic capabilities, will be a great advantage. Whatever the motive or need for integration, *creating an atmosphere that supports the transfer of strategic capabilities should remain the main goal* of the integration process (Haspeslagh and Jemison 1991). This is difficult however as problems that come up during the process of reaching this atmosphere, can themselves tend to undermine the goal. It is important to point out however that problems should not be avoided at all costs, as problems could give valuable insights and highlight important issues. Problems and confrontation can thus be argued to be an important source of learning.

By extensive research, including case studies on a number of different M&As with different motives, goals and needs for integration, Haspeslagh and Jemison (1991) have created a model (see figure 3) of a common set of elements in the integration process that remains the same regardless of M&A type or level of integration need. The model is illustrated and explained below.

Figure 3: *The M&A integration process*



Source: Haspeslagh and Jemison (1991) chapter 6-7

Transfer of strategic capabilities

A vital part and aim of integration is the transfer of strategic capabilities. According to the model, there are three types of capability transfers (Haspeslagh and Jemison 1991). The first is *operational resource sharing*. This is straight forward and refers to when capabilities are shared, transferred, or given, e.g. combining sales forces or distribution channels. This is associated with scope for rationalisation, but hence also organisational trauma as this might involve lay-offs and reorganisation. Secondly, there is *transfer of functional skills*. This is often hard and involves both teaching and learning before transfer can occur. Further, the more strategic in nature the skill is, the more difficult and the more important transfer is. Finally, there is *transfer of general management skill*, when the management of one firm is influenced by management issues of strategic direction, e.g. resource allocation or human resource management. Additionally, the above also results in *combination effects*, size-related benefits as market and purchasing power. This requires little practical coordination, nor does transfer of financial resources, as these do not involve personal interactions to a large extent (Haspeslagh and Jemison 1991).

This view of transfer of capabilities can be interpreted to rest on a notion that all skills and knowledge can in fact be transferred. However, this assumption can be questioned; can all types of knowledge really be transferred? Or will each individual form its own understanding of the knowledge thus modifying it and, if so, will this affect the goal or intended use of the knowledge transferred?

Atmosphere for capability transfer

Before transfer can occur and regardless of the type of capabilities and the method used for transfer, the right atmosphere must be created. In order for two firms to interact and work together, *reciprocal organisational understanding* is necessary. This means both must appreciate the other firm's values, history, organisational approach, personal makeup and culture. A prerequisite for mutual understanding is *willingness to work together*. The achievement of this is a difficult managerial task, as employees often fear for job security or loss of control or power. A general resistance to change and an uncertainty of the future are also important issues to deal with if a cooperative spirit is to develop in the firms. Haspeslagh and Jemison (1991) also came to another very interesting conclusion; *they found that prior experience with acquisitions or with a firm of a similar type seemed to increase the willingness to work together*. Even experience of mergers talks seemed to help condition the attitudes of people in the organisation and improved their acceptance of the deal (Haspeslagh and Jemison 1991).

Another requirement for capability transfer is that the *capacity to participate in the transfer* must exist. This means that a critical mass of intellectual and organisational abilities, as well as the right people in both firms, must be present and able to transfer or receive the capability or knowledge. An important aspect of this is that management must realise the importance of this and commit additional resources at both the parent and subsidiary levels. *Discretionary or flexible use of resources* provides a basis for dealing with operating and strategic contingencies at the operational, corporate, and business unit levels. For middle managers this means room for manouvering in the integration process and capability transfer (Haspeslagh and Jemison 1991). Thus, adaptation to local needs and problems become possible.

All the issues discussed above are of course very important for a successful transfer of capabilities, but in this phase getting a *cause-effect understanding of the benefits* is essential. The broad initial purpose must be clarified in operational terms for middle and operation-level managers, who then must work out the details for bringing the two firms together. If managers cannot understand the nature, source, timing, or the predictability of the expected benefits for the merger, it is likely that the chance of succeeding with the integration is reduced. It will thus help if managers involved understand how acquired capabilities can lead to improved competitive advantage, before they attempt to apply them (Haspeslagh and Jemison 1991).

3.4.2 Integration problems

Integration problems are common in M&As and an important reason for failure. Following is a brief discussion of such problems highlighted in the academic literature. Note that we have complemented the above model with, what we believe to be missing aspects.

Determinism is a term coined by Haspeslagh and Jemison (1991) which refers to the tendency of managers to cling to the original justification of the M&A, even though reality and conditions are changing. Thus, instead of setting a good example, managers themselves are resistant to change and have problems adapting.

Value destruction is the second big problem identified by the same authors and can be seen as the outcome of what Buono and Bowditch (1989) referred to as the "human side of M&As". An M&A is ultimately a human process. Thus stress and tensions are almost always involved, even in the "friendly" mergers. It is common that employees experience psychological repercussions of this stress. These reactions are the sources of many other problems in the M&A process as a whole. Human beings are habitual and they often react with *anxiety and uncertainty* to the many ambiguities in M&As (Buono and Bowditch 1989). A realistic communication and preview of the M&A process can reduce this stress and help to retain trust among employees (Schweiger and DeNisi 1999). *Grief* over the loss of old routines and the "old" firm is also common and can be intense (Buono and Bowditch 1989). Other common reactions include employees that become paranoid and frozen and show traits like unwillingness to work towards the success of the M&A, ignorance towards new policies, and lack of taking initiative and compromising. Ultimately some even leave the organisation as a reaction to the stress (Haspeslagh and Jemison 1991).

These reactions to changes can distract employees from their ordinary work responsibilities. Instead of working effectively, employees discuss the merger with each other and wonder about the future. Actually one estimate states that two hours per day is lost per employee. Thus, individuals or processes which were expected to create value, instead destroy value and limit the chances for a successful transfer of capabilities. Additionally, the preoccupation with the M&A can have deteriorating personal effects such as sleeplessness, increased smoking and drinking, and headaches which affects health and productivity negatively (Buono and Bowditch 1989). Rationalisation, changes in benefits and bonus systems, and standardisation of policies can also lead to economic destruction for the individual employee (Haspeslagh and Jemison 1991).

Erosion of trust is a common effect of M&As, no matter how management approaches the process (Buono and Bowditch 1989). This in turn often results in self-centred behaviour among employees who are then not creating value for the firm to the same extent. Not only can actual actions taken by management affect the outcome of the integration and the extent of stress experienced by employees, but employee expectations are also influential in this aspect. Research has, for example, indicated that unrealistic expectations are a significant cause of lack of success in change programs. Further, it has been shown that pre-M&A expectations of employees, managers, and shareholders are usually unfulfilled after the merger has been implemented. Underperformance, slow learning, and dissatisfaction are common reactions, many of which can be avoided by sound expectations of the outcome. Unfulfilled expectations are also serious because they can undermine trust and commitment (Buono and Bowditch 1989). Finally, studies have indicated that employees that are given a realistic picture of the future after the merger are more likely not to experience any severe stress and have a more stable level of commitment, trust, satisfaction, and performance (Schweiger and DeNisi 1999).

Leadership vacuum is the lack of appropriate leadership for the combined firms. In a situation such as an M&A, where value could easily be destroyed and many employees experience stress, strong and visionary leadership is required, both in human resource matters and operational issues. Haspeslagh and Jemison's (1991) study showed that the possibilities for creating a positive atmosphere, where capabilities can be transferred, were extensively limited if there was a lack of strong leadership. Without an understanding of motives and how the two firms can work together and create value, integration becomes hard and firms continue as two separate units. However, as senior managers tend to put all energy into the negotiations around and closing of the deal, they often leave the integration to lower level management (Pablo 1994). This lack of attention to the integration could explain many failed M&As. Haspeslagh and Jemison's study (1991) further showed that institutional leadership was often missing, as decisions and understanding regarding integration was harder than focusing on performance.

3.4.3 Cultural integration

Even though Haspeslagh and Jemison's model (1991) is comprehensive and often cited, they fail to include one important aspect, the influence of culture and cultural integration. Cultural integration is a large part of the integration process and it has been suggested that cultural disturbance in M&As can cost as much as 25-30% in lost performance (Larsson 1991). The acculturation process is often held accountable for the failure to successfully implement an organisational integration strategy (Salama *et al* 2003). The issue is therefore treated separately in this section. Culture is defined as a *"complex whole, which includes knowledge, beliefs, art, morals, law, custom and any other capabilities and habits acquired by man as a member of society"* (Buono and Bowditch 1989). Organisational culture is in turn *"the normative glue that holds organisations together through tradition, patterns and expectations that emerge over time"* (Buono and Bowditch 1989).

Cultural confrontation and adaptation influences all processes undertaken in the firms after the M&A agreement is signed. Such problems can hinder the knowledge transfer and learning in the merging firms. Cultural integration can not be seen as a separate step in the M&A process, it is rather a simultaneous process. The cultural integration process can be divided into three different phases; 1) *Threat against the own culture*; which is the first reaction when both groups feel threatened by the other and are insecure about the future, 2) *Cultural confrontation;* both parts become aware of their own and the others culture, a "we and them" spirit develops. There is a polarisation of views of the colliding cultures, and finally 3) *Acculturation*; the actual combining or creation of a new common culture where the power relationship is equal (Schweizer 2003).

Merger acculturation does not necessarily mean that the previous two corporate cultures are replaced and a new is formed nor does it mean one firm has to become and behave like the other. Acculturation can occur on many levels. Nahavandi and Malekzadeh (1988) for example identified four levels or modes of acculturation, ranging from *integration* (note that here integration is Nahavandi and Malekzadeh term for a specific occurrence), where firms keep their cultural identity and there is no active strategy to change this. Instead, a common culture eventually grows to *assimilation* where one firm is forced to conform to the other. Before choosing an acculturation mode, firms should analyze and assess the cultural situation. There must be a fit between the desire to preserve their own culture, cultural tolerance and attractiveness, and appropriateness of both cultures in the new setting.

3.4.4 Difficulties with cultural integration

As national, societal, and corporate cultures often are deeply rooted in individuals and organisational heritage, problems and difficulties can arise during the cultural integration process. The problems and hindrances to be overcome in cultural integration have been widely discussed and debated in literature and among practitioners. Below, the most prevalent findings are summarised.

In M&As, *acquired managers may lose some of their previous power* and become restricted in their autonomy. They might then feel dominated by and inferior to the acquiring executives. This in turn also means that acculturation problems will come up, which influences all employees. To avoid this, the acquired firm should be given a high degree of autonomy. However, this rarely happens. If there is large size differences between the two firms, feelings of unimportance may also arise and with that an unwillingness to confront, understand, and adapt to the acquiring firm's culture (Larsson and Lubatkin 2001).

Another frequently discussed issue is *relatedness*. Two topics end up under this heading, namely cultural relatedness and the possibilities for synergistic returns. On the issue of cultural compatibility there seems to be no uniform opinion among academics. Some argue that considering cultural compatibility is a vital prerequisite for making M&As work (Cartwright and Cooper 1993), while many others argue that cultural differences are no hindrances to the success of M&As as long as they are managed correctly (e.g. Salama *et al* 2003, Larsson, and Lubatkin 2001). When it comes to synergistic effects, these are often the motives behind M&As. However, paradoxically, studies have shown that the more products, markets, and technologies that overlap, the greater the expectations of synergistic returns, but also the greater potential of cultural conflicts and problems in the integration process. The study concluded that a high level of integration of human resources was necessary for utilisation of synergy effects and that this in turn could lead to situations where integration problems came up (Larsson and Lubatkin 2001).

Most, if not all problems in cultural integration involve the individual employees' feelings, behaviour, and reactions to the M&A situation. This is why *social control* (non-authoritarian and informal) is another important aspect of acculturation contributing to the success of the M&A integration in general. Following the same logic as above, it has been pointed out that the more formal integration efforts or mechanisms, such as change of operating and reward systems, management, and name that are applied to impose the buying firms culture on the acquired firm, the less likely cultural integration becomes.

On the other hand, the more the firms rely on social control the greater the chance of achieving acculturation. Social control can be exerted by forming teams and task forces, informal communication, joint socialisation, and by promoting teamwork (across and between units, countries, departments, etc) (Larsson and Lubatkin 2001). Social control also has positive effects as it helps eliminate negative pre-merger assumptions, such as stereotyping, before or during the integration process. In fact, the study conducted by Larsson and Lubatkin (2001) concludes that social control is the only important factor that can avoid cultural clashes or problems in the cultural integration. By engaging employees in socialisation the two units are likely to create their own organisational culture as long as they are allowed autonomy. Actually, the study showed that social control could overcome all the other potential problems outlined above. Further support also comes from a study of a hostile takeover where the tensions and discrepancies were intense in the early stage. However, social controls and interactions, such as visits, transfers, and communication helped to overcome the uneasy relationship and to overcome the inter-cultural problems. In fact, these social measures even resulted in a strong, positive impact on the acquired employees' respect for the acquiring firm's belief in personal prospects (Bresman *et al* 1999).

Social control and social factors are indeed tremendously influential in the integration process. Two-way communication is a significant route to social control and an important aspect of a successful integration strategy. Research on the reasons for failure of M&As first and foremost point to "people issues". High-impact communication during a merger can win trust, build commitment, and keep employees focused on the job and thus the value of the deal can be captured. Communication can also tone down damage caused by rumours and can relieve some of the M&A stress many experience. In fact, it has been argued that communication ranks as one of the top ten drivers of merger success. Again, however, because communication is time consuming, tough, and not legally required, resources are seldom spent on communication (Hutchison 2002). It is also important to note that not all communication is necessarily helpful. As a matter of fact, one study found a positive correlation between some forms of formal communication and conflict. However, such communication was often indiscrete and experienced as disrespectful, one example being a video message from a CEO imposing the acquiring firm's culture on the acquired part (Whalen 2002).

Difficulties during cultural integration can result in resistance and lower commitment and cooperation among acquired employees, greater turnover among acquired managers, a decline in shareholder value at the buying firm and a deterioration in operating performance at the acquired firm (Larsson and Lubatkin 2001). All together this means of course drastic value destruction for the M&A, making cultural integration central.

3.4.5 National Cultures and international M&A integration

Due to several reasons, international M&As are more difficult than domestic M&As. The geographical distance alone makes the integration processes more complicated. Especially in aspects such as social control that requires interaction. Further, international M&As not only have to consider organisational culture and what effects it can have on the M&A process, they also have to consider national culture and/or local societal cultures. National culture is deeply rooted in people and society and as such it influences corporate cultures and conducts. In fact, national culture is often stronger than corporate culture, shown in Hofstede's (1980) classical study of IBM's strong corporate culture and how it differed across countries. To understand national cultures and how they affect business life is important in every international M&A. This provides managers with a good foundation for understanding differences, why these exist, and how they can be managed.

National, local, and societal culture also influence managers as management is embedded in the wider societal setting. Local history and cultural norms influence the underlying values of management style. This in turn determines the broad direction of corporate cultures. In fact, empirical evidence shows that management is affected by national culture and it has even been shown that the post-acquisition control is influenced by national administrative heritage (Angwin 2001). Further, national culture has been found to be a good determinant of many common managerial problems related to human resource management, especially in situations such as cross-boarder M&As (Segalla 2001). Managers from different cultures perceive the business environment and business situation in different ways, putting focus on different risks, opportunities, and solutions. Their decisions and actions reflect how they try to control these factors.

Having understood the M&A process, its stages, and common problems we now move on to the next theoretical field.

4 BUSINESS RELATIONSHIPS

Chapter four guides the reader through some important business relationship literature, starting at the network level and finishing on the single business relationship. Literature will also be related to the Bt industry where suitable.

4.1 Starting at the network level

Business studies used to be the study of the firm as a single unit and researchers presumed managers always acted in economically rational ways. Today, the focus of research is moving away from this, as academics realise that firms neither operate alone nor act only for economic reasons. Instead, concepts like networks, relationships, trust, commitment, and social influence are widely discussed. Market or hierarchy are no longer seen as the only or most efficient alternatives facing today's firms. The network approach views all organisations as part of a network and its environment as consisting of other networks. Hence, everyone is in one way or another connected, it is often referred to as being embedded (Andersson *et al* 1997).

This is especially true for Bt businesses where, as mentioned, networks and collaboration are crucial organisational ingredients in the corporate strategy of firms. Instead of product exchanges, R&D projects using tacit knowledge are often collaborated around. These are hard to evaluate or transfer via arms-length arrangements. In many instances there are no clear boundaries between buyer and seller. The network form of economic organisation has thus proved to be especially useful in this industry (Shan 1990).

Much has been written on the topic of why Bt firms need strategic alliances and other forms of collaborations, relationships, and access to networks for success and survival (Gries *et al* 1995, Liebeskind *et al* 1996, Powell *et al* 1996, Powell 1998, Baum *et al* 2000). The Bt sector is rich in knowledge and knowledge is also one of the most important competitive advantages in this industry. Much of the research concerning alliances and networks has shown that inter-organisational relationships are crucial for sourcing this valuable knowledge, consequently contributing to the creation of competitive advantage. It is hence argued that a firm's cooperative arrangements may influence its capabilities as well as others' perceptions of the firm's capabilities (Baum *et al* 2002). Baum *et al* (2000), for example, show that the performance of Bt start-ups, in particular the innovative-related performance, is dependent on the firm's alliance network. Further, such alliances may provide opportunities for interaction. This, in turn, will lead to the development of new ideas and incentives for the extensive sharing of experiences necessary for inter-organisational learning (Baum *et al* 2002). Similarly, Liebeskind *et al* (1996) argue that the exchange that occurs in social networks is likely to contribute to organisational learning and flexibility.

So far, business relationships have been presented from a network perspective in order to explain how and why business relationships within the Bt industry are important. The network view implies that all the firm's relationships are interconnected and one relationship is thus affected by the state of another (Anderson *et al* 1994). Hence, much network research focuses on network configuration. We will leave the network perspective here however. In order to examine the role of a pre-M&A relationship in the M&A process, we must instead move down to the analytical level of one single business relationship. We will investigate what it may lead to and what may develop within the boundary of the two firms.

4.2 Taking a closer look at a single business relationship

A theory of how firms interact and come to depend on each other is the Uppsala process model of internationalisation. The model is founded on the assumption that lack of knowledge is a major obstacle to internationalisation and that this knowledge can be gained by gradual expansion abroad. As the firm learns more and continues to root its operation in the new market, it becomes committed. This results in improved market knowledge. Knowledge about the new market enables the firm to better evaluate risks and opportunities and the firm may thus increase its commitment to the market. Knowledge thus drives commitment and the process is driven by interplay between learning about international operations and commitment to international business (Johanson and Vahlne 1977). In sum, a business relationship is thus likely to involve increased *commitment*, *learning*, and perceived *risk reduction*.

The function of relationships between firms is to make transactions of all kinds efficient. This is argued to be achieved by interlinking activities and by leveraging resource heterogeneity. Relationships must also be based on a mutual self-interest of the actors involved. As the relationships develop, activities performed by the actors can be adapted so that the combined efficiency is further enhanced. One such example would be just-in-time. Thus, *resource adaptation* is another example of what business relationships might bring. It is also likely that the parts, as the relationship develops, learn about each other's resources and together innovate new and better ways of combining resources (Anderson *et al* 1994).

Set against this background; the assumption that the firm's capability is rooted in the exchange relations of the firm, meaning that its relationships are essential, the Uppsala model was developed to suit today's business reality. The authors could identify that in these business relationships, resources and processes were gradually adapted to the other part over time, thereby the firms' capabilities were modified. New and unique *knowledge development* is thus a part of the relationship (Andersson *et al* 1997).

A business relationship, like any form of relationship, does not happen or last on its own, it requires investments associated with exchanges with the partner. It may take years of costly activities before the partners have demonstrated willingness and ability to utilise the impending benefits of the relationship. It was highlighted by the authors that such relationships are important assets and a *platform for future business and knowledge development* (Andersson *et al* 1997). Actors can, for example, realise that the cooperation has the potential to increase efficiency for both parties (Anderson *et al* 1994). This, in turn, might even be the introduction to M&A activity.

Andersson *et al* (1997) further argue that the firm's capabilities are specific to the context that the firm operates in, referring to the fact that it is embedded in its network. From this perspective the authors go on to suggest that integration problems arising in M&As arise from the fact that there is a lack of compatibility between the market contexts of the two business firms, since they are embedded in separate networks. However, while expanding and committing to a new market, the firm also starts building relationships, with e.g. partners, suppliers, and customers. It then logically follows that a pre-M&A relationship has embedded the firms in the same context and networks and integration problems could thus be avoided or at least lessened.

This thought is strengthened by the empirical finding that start-ups experience less problems than acquisitions. The conclusion drawn is that this is because start-ups are not embedded in any network of relationships when it is integrated into the mother-firm. However, some important circumstances are overlooked here. M&As, for example, result in two corporate or even national cultures being merged into one; job security might be threatened by rationalisation, there is often an imbalance in power relations and so on. All factors affecting human actions and reactions, which are not present in start-up integration and which are common in M&As and strongly influence the efficiency of integration (see further section 3.4.2). We would therefore like to add these social factors to the explanation why a start-up integration is easier than a M&A integration. However, we believe that in a business relationship, these crucial social connections and a social understanding for the other party; between the firms and its individuals; starts to develop and will most likely play an important role in a later M&A process and the value creation.

Other relevant empirical findings, important to this thesis, have also been made by Andersson *et al* (1997). By looking at subsidiaries' external (mainly customer) embeddedness they discovered that time elapsed after acquisition does not influence power relationship or the corporate embeddedness. The authors hypothesize that this could be because the acquired unit and the acquiring firm already had a relationship. The acquisition was just a legal step without any real consequences for the operations. Further, integration did not significantly affect the operating structures. From this, the conclusion is drawn that acquisition behaviour is organic in nature and thus builds on the same logic as the original Uppsala process model. Andersson *et al* (1997) also stipulate that two contextual dimensions impact acquisition behaviour and its consequences; extent of previous relationship between the two parts and the companies' psychic distance. These are very interesting conclusions and our thesis can be seen as a continuation of this research. However, for reasons explained, we do not only think embeddedness is important, but social issues as well. This is why we have chosen to look more closely at the social influence a pre-M&A relationship might have on the M&A process. In this way, the study could contribute to this model.

However before moving on, it is important to note that business relationships and networks are not only positive, they also imply structural constrictions on the firms (Anderson *et al* 1994, Andersson *et al* 1997). Equally, it is possible that firms can become locked into relationships by the created dependency it implies. Especially if the power balance shifts during the relationship. Instead of working with a strategically superior partner, the firm might then be stuck with a less efficient partner due to the switching cost involved. Furthermore, business relationships are based on trust and mutual knowledge and they comprise intentions, expectations, and interpretations (Andersson *et al* 1997) – but this might not mean that they are economically rational. CEO's and managers often act after their own ego instead of acting in the best interest of the firm or shareholders. The strong influence of CEO ego on the development of firms was illustrated at a conference with Bt CEO's where everyone agreed M&As in Bt is good. However, everyone also admitted that CEO-ego was the largest deterrent (Colyer 1999). When or if business relationships become too personal it might be hard to end the relationship. Finally, people or businesses might stay in a relationship even though they are not satisfied because there are no other alternatives or simply because they feel secure and content rather than satisfied. A high level of commitment might thus lead to tolerance of undesirable things (Hocutt 1998).

So far, we have examined why being part of a network is important for conducting business within the Bt industry, as well as what business relationships might result in. The academic literature points to a role of previous relationships in the M&A process, that a relationship might be a good platform to start M&A activity from. However, in this argumentation we identified a missing social aspect. This, together with the many "human-related" problems in the M&A process, has led us to wonder if there could indeed be a deeper social aspect in relationships which could have a role in the M&A process. We therefore now move on to explore one-to-one relationships, what they entail, and what benefits and risks they may bring. This is done via the concept of social capital, which here is used as an instrument to visualise what a relationship is founded on.

4.3 Social capital - a relational concept

The concept of social capital was formed as society, academics, and practitioners were partly moving away from the rational-economic view of the firm to a perspective where concepts like knowledge and social networks are increasingly important for competitive advantage (Bolino *et al* 2002). Social capital usually refers to an "asset that is derived from social structure of relations and can be used for knowledge gathering and dissemination" (Edelman *et al* WP). By now, much has been written about social capital and, as in most research areas, views differ. In the case of social capital, opinions differ regarding what its sources are, what it is composed of, as well as which benefits and risks it involves (Adler and Kwon 2002). Researchers have therefore defined social capital differently, depending on the focus chosen. An accepted definition of social capital would be Adler and Kwon's (2002): "*Social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor*". Social capital has some similarities but also differences compared to financial and human capital. One similarity is that firms must invest to sustain all types of capital. However, social capital is unique in that it is collectively owned, increases with use, and dies out if not used (Nilsson 2001).

Further, much research on social capital has been conducted within the boundary of the firm. However, wherever institutions operate in contexts characterised by enduring relationships with relatively high levels of interdependence, interaction, and closure dense configurations of social capital is likely to emerge (Nahapiet and Ghoshal 1998). Interaction is a prerequisite for maintenance and obtaining of social capital (Nilsson 2001) and thus inter-firm relationships have the characteristics necessary for developing social capital.

We take a slightly different view however of social capital and regard it *as a relational concept*. We look upon social capital as *the essence of business relationships*. What it entails, in turn also affects the relationship and how it can be utilised. As such, we argue that social capital can be used as an instrument to understand and capture what a business relationship really involves and why it is so influential. Thus social capital is the core of the relationship through which other benefits can be reached. For example, if a longstanding business relationship leads to an important agreement resulting in profitability, the relationship between the two parts has most likely affected processes or factors leading to the agreement. To understand why, we need to look at the social capital in the relationship and the nature of it. Hence, we argue that social capital in itself is not a benefit; it is what it leads to that is important. Further, we need to regard the social capital to understand why, which in turn makes us truly realise the benefit of the relationship and thus how to manipulate it to our benefit. Social capital is a relational concept which captures the relationship between two parts. It displays important aspects, feelings and enablers of the relationship.

Our definition of social capital is: "*Social capital is what is derived from social interactions; it is the structure of relations, feelings and emotions in the relation and how these are communicated. It is an important asset through which many valuable benefits can be reached*".

In arriving at this definition, we have been strongly influenced by Nahapiet and Ghoshal (1998), in that we consider their framework very useful. It visualises what a relationship entails in a comprehensive manner. However, we have also been influenced by the definition given by Adler and Kwon (2002) above. We do not regard the effects of social capital as being *the* capital however. We regard these as the benefits and risks *of* the social capital which should carefully be taken into consideration in the M&A process.

4.4 Sources of social capital

As noted above, inter-firm relationships are overall characterised by conditions that favour the development of social capital. However, social capital is *not* present to the same extent in all relationships and *does not* develop automatically. Adler and Kwon (2002) identify *opportunity*, *motivation,* and *ability* as the sources of social capital. These three factors are similar to those that have to be satisfied in order for exchange and combination of resources to take place, and thus are necessary for the creation of intellectual capital (Nahapiet and Ghoshal 1998). Further, the creation of intellectual capital is, as explained, an important driver of cooperation in the Bt industry, which is why social capital is likely to exist in these constellations. In addition, Nahapiet and Ghoshal (1998) also include *belief* as a source of social capital., Social capital will first develop in an inter-firm relationship if all of these sources are present.

First of all, there must exist an *opportunity* for the two firms to interact and exchange resources. Within the boundary of the inter-firm relationship, these opportunities consist of social relations (formal, informal, personal, or accidental) between people from the two firms. These create opportunities for interaction and access to the other's resources (Nahapiet and Ghoshal 1998). This access to resources also coincides well with the Uppsala process model, which regards access and adapting to resources as central to the development of business relationships. *Belief* refers to the fact that interaction and exchange of resources will only occur if the two firms believe value will be created (Nahpiet and Ghoshal 1998). Thus, if the firms believe cost will outweigh the benefit of the exchange, they will not initiate a relationship.

If employees from the two firms do not feel it is worth the effort, the exchange and combination of resources will not occur even though both opportunity and perceived value creation exist. *Motivation* is thus the third source. Even though employees are not always sure of the return when helping one another, they still do. Shared norms, trust, and the willingness and ability of individuals to define collective goals are argued to be the motivation behind this behaviour. Collective action is facilitated by the norms and forms a collectivity of the inter-firm relationship. The participants are likely to feel obligations towards the other members and a common identity will emerge as well as a commitment to the common good. Shared norms are in fact often seen as a key motivational source of social capital. However, shared norms do not necessarily function as a source of social capital. It is the content of the shared norms that determine if they function as a source of social capital. However, egocentric motives, such as the desire for career advancement, surviving competitive rivalry, or reduction of transaction costs, are also likely to drive relationships (Adler and Kwon 2002).

Finally, it has been debated whether *ability* really can be seen as a source of social capital, or if it is a complement to social capital (Adler and Kwon 2002). Nahapiet and Ghoshal (1998) argue that the capability of people in the two firms to combine information or experiences should be considered as a prerequisite for the combination and exchange of resources. Thus, in their opinion, it is a source of social capital. Further, the ability of individuals to define and implement collective goals is also important (Leana and Van Buren 1999).

4.5 Components of social capital

It can be concluded that social capital might originate from inter-firm relationships. However, since social capital differs from relation to relation, the nature of the social capital developed is also important. As mentioned above, social capital can be viewed from different perspectives. Even though authors label aspects differently it is clear which aspects are important in shaping the nature of social capital. These will now be discussed. Nahapiet and Ghoshal's (1998) comprehensive review provides a useful framework from which social capital can be analysed. They divide social capital in three dimensions; structural, relational, and cognitive. This is also how we have chosen to present the topic.

Before moving on however, we would like to point out that these dimensions are merely angles from which social capital can be studied. Secondly, it should be noted that there is no social capital that is similar to another and that the social capital in each inter-firm relationship is uniquely made up of some or all aspects of some or all dimensions. Therefore these dimensions are later used to analyse and explain what the relationships under investigation are founded on. The dimensions are also used in the analysis to explain the nature of the relationship and important notations therein.

4.5.1 Structural dimension

The structural dimension of social capital refers to how information, knowledge, or intellectual capital can be reached in a network or a relationship. Structural embeddedness is an important aspect and refers to who you reach and how you reach them (Nahapiet and Ghoshal 1998, Bolino *et al* 2002). The Uppsala process-thinking also talks about embeddedness, referring to the different connections and ties a firm has to its external partners. However the structural dimension of social capital can be viewed both from a network perspective or a one-to-one relationship perspective (ties, configuration, and appropriability between employees from different firms). Following is a deeper look into what the structural dimension includes.

• *Network ties* involve the presence, absence, and strength of network (or relational) ties between actors. It influences information transfer, inter-organisational learning, and the execution of inter-organisational activities and thus the outcome of the relationship. For example, if employees from the two firms know each other it will be easier to carry out inter-organisational activities and transmit information and knowledge (Nahapiet and Ghoshal 1998).

• *Network configuration* describes the pattern of linkages between the two firms. Characteristics such as density (the extent to which all employees are interconnected relative to the total number of potential connections among all employees), connectivity and hierarchy are important (Nahapiet and Ghoshal 1998). Further, discussions about structural holes (the absence of connections between employees) and centralisation (the degree to which connections are concentrated among few employees) also influence the resulting social capital (Bolino *et al* 2002). In our interest is for example if the relationship between the two merging firms is based solely on interactions between management or if the relationship is "firm-wide", implying that there is a wider cooperation and maybe even socialisation across all levels of the firms. While the ties provide the channels for information transmission, the network configuration determines the extent of movement of information, knowledge assistance, and flexibility between the firms, since the level of contact or the accessibility of network members is influenced (Nahapiet and Ghoshal 1998).

- *Network appropriability* is the ease with which different types of relationships can be used for purposes other than what they were created for. An example of appropriability is when an employee is able to carry out a task more easily because he or she has a friend, in the same firm or another firm, who knows how to carry out the task. It can also be when cooperation within a specific product area gives access to a technology that could potentially be used for something else (Nahapiet and Ghoshal 1998).

To conclude, investigation of the structural dimension includes finding out about the extent to which individuals in the two organisations are connected, what the pattern of these connections look like, and how useful these connections are in various contexts (Bolino *et al* 2002).

4.5.2 Relational dimension

Relational embeddedness concerns the quality and nature of the connections in the inter-firm relationship and also influences the nature of social capital created. Nahapiet and Ghoshal (1998) have identified the following to be important aspects of this dimension.

- *Trust and trustworthiness* has been identified as vital components of social capital (Leana and Van Buren 1999). Trust is seen as being both an antecedent to and a result of people working together, as well as a by-product of successful collective action. Leana and Van Buren (1999) further distinguish between *fragile versus resilient trust* and *dyadic versus generalised trust*. Trust is generally seen as having elements of the willingness of people to expose themselves to the actions of other parties, in other words, being vulnerable. Fragile trust is based on a belief in immediate rewards and is usually governed by formal contracts. It is when firms determine the partner trustworthy enough for a single transaction and the potential rewards as sufficient for the risk involved. Thus, costs cannot exceed benefits. Resilient trust, on the other hand, is likely to survive a transaction that does not mean an immediate reward. It is based on numerous, strong links between the organisations and its members, not just on formal contracts. Resilient trust is also based on previous experience with the other firm and/or a belief in its moral integrity. It is argued that norms and values, which will be discussed later, unite communities that are characterised by resilient trust. Hence, fragile trust is a workable strategy of mutuality while resilient trust is instead based upon ongoing norms of mutuality. Dyadic trust exists between people that have direct knowledge of one another. However, there is another, more impersonal, kind that is based on a feeling that the norms and behaviours of a firm apply to all its members. This is referred to as generalised trust. Thus, regardless of whether employees from one firm know actors from the other firm directly, or have interacted with them, they will be trusted and this trust can very well be of the resilient type. It is argued that systems, in this case inter-firm relationships, with strong social capital are characterised by generalised trust. Hence, resilient and generalised trust can be said to indicate that human actions are embedded in social relations, thus pointing towards strong social capital (Leana and Van Buren 1999).

- *Norms and sanctions* of openness and teamwork, with emphasis on cooperation instead of competition, open disclosure of information, and loyalty to the firm are often found in knowledge-intensive firms. In an inter-firm context such norms enable, enhance, and make the relationship efficient. Such norms will also give inter-firm relationships stability and a good foundation to create value from. Further, norms of a willingness to welcome and respond to diversity, openness to criticism, and tolerance of failure are also considered important since such norms are likely to prevent negative restrictive group thinking (Adler and Kwon 2002).

- *Obligations and expectations* An obligation means a commitment to undertake some activity in the future. Obligations can be formal, professional, and personal (Nahapiet and Ghoshal 1998). A relationship can also lead to expectations of obligations, which can affect the social capital depending on whether it is realised or not (Bolino *et al* 2002).

Relational social capital can thus be said to involve emotional intensity which results in people from the two firms starting to like, trust, and identify with one another.

4.5.3 Cognitive dimension

The third dimension of social capital is the cognitive which concerns whether members of the inter-firm relationship share a common view and whether they really understand one another. This depends on the following:

- *Shared narratives* can be explained as the myths, stories, and metaphors that are communicated within an organisation. They are likely to enable the employees to interpret and understand their experiences in similar ways. It has been demonstrated to facilitate the exchange of practice and tacit experience between people, thereby enabling the discovery and development of improved practice (Nahapiet and Ghoshal 1998). In an inter-firm relationship, these narratives are likely to be shared over time and eventually employees from the two firms might be familiar with the narratives of the other firm. It could also be the case that new common narratives are created as a result of the interaction of the two firms.

- *Shared language and codes* as well as shared narratives, will alleviate discussions and facilitate the transfer of ideas and sharing of knowledge among employees from the two firms. Further, high levels of cognitive social capital are likely to give employees a common perspective that enables them to perceive events similarly (Bolino *et al* 2002).

Consequently, shared language, codes, and narratives increase the level of understanding among employees and the two firms. Additionally, as time goes by, efficiencies will be gained through mutual awareness and a reduction in the number of unexpected behaviours performed by employees (Bolino *et al* 2002).

Having reviewed and treated the M&A process as well as the field of business relationships, we now move on to integrate these. We ask how and why firms can benefit from social capital and focusing on potential benefits and risks during an M&A process.

5 SOCIAL CAPITAL IN THE M&A PROCESS

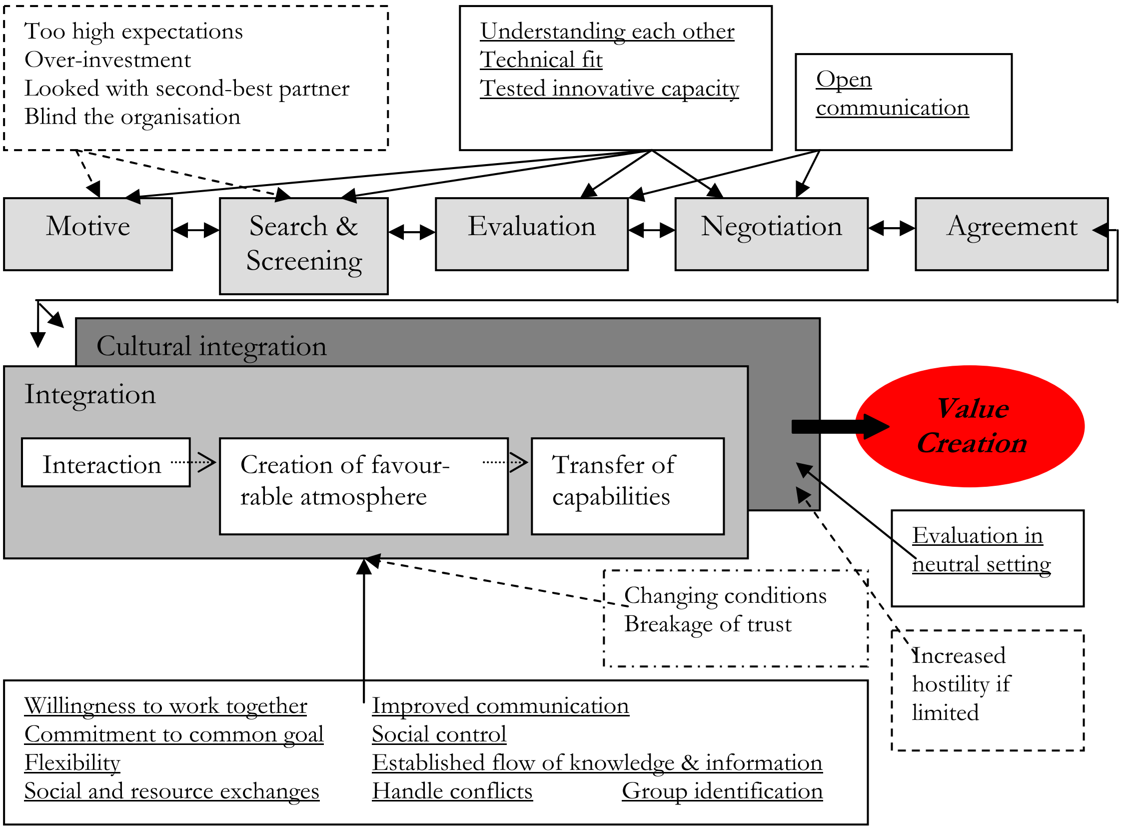
Chapter five illustrates our theoretical integration and analysis of potential benefits and risks of social capital in the M&A process. These are visualised in a model and discussed.

The picture that emerges from the reviewed literature points to the great importance of relationships in business. Relationships have many functions and sources and require continuous investments. A functional business relationship has all the sources necessary to develop social capital, which is why social capital is likely to be present. A good business relationship is not something that can be initiated and utilised instantaneously. Instead, a beneficial business relationship is rather like a process that changes and develops over time, it organically evolves while ties, bonds, commitment, and trust becomes stronger and deeper as time passes by, the relationship strengthens and thus also the social capital.

It is in human nature to desire a feeling of security. When the organisational security is disrupted by, for example, an M&A, employees experience confusion and stress, as discussed above. This reduces motivation, cooperative spirit, willingness to engage, productivity, initiative taking, commitment, and trust, among other things. This threatens the long-term value creation and ultimately the competitive advantage of the firm. Social factors have shown to be both responsible for much of the problems as well as being a solution to many of those issues. Due to the creation of social capital, we believe that a previous relationship has the potential to influence the situation (positively or negatively).

A discussion will now follow dealing with the positive and negative consequences a business relationship and the social capital developed could have in the M&A process. The potential consequences have all been identified by our theoretical analysis of the two fields and are illustrated in figure 4 below. These are then explained and outlined in the following text.

Figure 4: *The benefits and risks of social capital in the M&A process*



Note: Risks illustrated in boxes with broken lines, benefits are underlined. The figure does not explain interrelationships between risks and benefits.

Source: Lindau-Jonsson and Persson (2003)

5.1 Social capital - a valuable resource

Authors in the field have identified several benefits of social capital and these will be complemented by our own analysis of potential benefits of social capital in the M&A process. However, first of all, if social capital should be of value for the two firms engaging in the business relationship, there needs to be a "fit" between the aspects of the social relations and thus the nature of the social capital developed, and the reason why they have a relationship (Adler and Kwon 2002). This "fit" is also important for the role of a pre-M&A relationship in the M&A process.

5.1.1 Individual commitment to the collective good and realisation of technical fit and synergies

Social capital can make people put organisational interests before their own. Collective goals and norms can make people feel it is worth doing things that are useful to the organisation and its members. Further, trust and associability provides a context in which people decide whether it is worth putting individual interests aside or not (Leana and Van Buren 1999). Hence, it is our belief that if trust created in a pre-M&A relationship is maintained in the M&A process it might enhance the willingness of people to work towards the good of the new organisation. They will then not start to pursue their own self-interests.

Further, whereas a cause-effect-understanding is important to employee commitment and motivation, we believe a pre-M&A relationship could provide employees with a foundational understanding of the causes and effects of the relationship. Further it might also offer employees and management a realistic picture of what synergies to expect from the deal. This would in turn enable an understanding and realisation of the potential benefits of the M&A. For example, a relationship that involves cooperative R&D, technical application, or joint production could reveal beforehand if the two firms technically fit, complement, or compete with each other. As this is a common motive for M&As such benefits of a previous relationship could be important. If employees in all levels of the organisation experience this, explaining and tackling other problems occurring during the M&A process will be much easier.

5.1.2 Facilitator of flexible work organisation

Hierarchical control mechanisms have proven ineffective to promote flexible and productive work practices within organisations. Instead, practices can be organised to rely on trust between employees and management, as well as associability norms and cross-functional cooperation. This is likely to enable companies to adopt flexible and/or high-performance work practices. This is especially the case in organisations characterised by high levels of social capital. Further, presence of social capital is also said to lead to longer job tenure and higher trust. This is important since durability of relationships can be an important factor for flexibility since it involves significant cooperation, trust, and coordination among different functions in the organisation (Leana and Van Buren 1999).

It can be argued that Bt firms, more than other firms, are dependent upon collaboration, flexible work practices, and teamwork of reasons discussed earlier. Thus, social capital is likely to be beneficial if practices can rely on trust and associability between employees and management from the two firms. In the M&A situation it is also clear that a flexible organisation will cope better with the changes it brings. Flexibility will thus lead to less resistance to change and the M&A process will be easier.

5.1.3 Managing collective action and creating a cooperative spirit

Rather than relying on hierarchical control, firm relationships strong in social capital can instead utilise relational contracts and norms as control mechanisms. Consequently, people from the two firms can work well together because of a shared understanding regarding work organisation, implicit norms, and generalised resilient trust (Leana and Van Buren 1999).

In a functional and effective pre-M&A relationship parties are likely to have gained experience of and knowledge about each other, which in turn forms resilient trust. Over time, as the social capital strengthens, this may develop into generalised trust. Thus, employees will trust each other and work well together, even though they have not previously interacted or had personal experiences with each other. This is especially desirable in an integration process. It has also been argued that trust facilitates social and resource exchange, increases communication, and enhances cooperation between individuals leading to enhanced teamwork and improved organisational function. These benefits coincide with those identified as desirable for an atmosphere for capability transfer in an integration process. Thus we believe presence of resilient and generalised trust is of great importance in an integration process.

It has also been argued that group identification is positively associated with communication and cooperation. We therefore argue that a pre-M&A relationship might mean employees identify with each other, meaning that a collaborative atmosphere is present.

Returning to the discussion about social control, it is further our belief that the presence of trust is an important aspect of social control. In fact it is our belief that social control can be said to rest upon social capital. Hence, we argue that trust created in a pre-M&A relationship would alleviate when the M&A occurs.

5.1.4 Conflict resolution

Strong social norms and high levels of trust can also enable faster dispute resolutions. The emergence of a bad atmosphere with angry feelings can thus be prevented (Adler and Kwon 2002).

Consequently, in a pre-M&A relationship with established relational ties, employees learn to collaborate and handle conflict and may also start to adapt to each other. This might also mean people will not feel as threatened by the other firm and its employees, compared to M&As, in which they have never interacted before. We believe this might also mean that a "we versus them" feeling is not as likely to occur.

5.1.5 Information

Social capital enables individuals to access more sources of information as well as improves the quality, relevance, and timeliness of that information. It has been shown, for example, that inter-organisational networks help firms acquire new skills and knowledge. Further, network ties influence information transfer, organisational learning, and the execution of organisational activities (Adler and Kwon 2002). In a network with high degrees of trust and solidarity, more sensitive and rich information is likely to be transmitted.

We believe the M&A process could benefit from this aspect, since established ties might lead to informal information transfer. We believe such informal channels are suitable for tacit and strategic knowledge transfer. Such transfer is of utmost importance in a M&A situation, hence also such social capital.

5.1.6 Understanding each other

The cognitive dimension of social capital enables people at the two firms to anticipate and predict the actions of each other. If members of the two companies do not understand each other, problems are likely to occur and affect the M&A process. Discussing problems, transferring ideas, sharing knowledge, and offering effective assistance to each other would be hard. Further, the probability of developing a common perspective that enables employees to perceive events in a similar way would be limited. In international business relationships this is likely to be a hindrance in the beginning of the relationship. Even if both parties speak English it is always harder to express one self in a foreign language and underlying, often unconsciously transmitted, messages and hints are hard to catch. Such messages can indeed be very important and can have cultural components to it. It is therefore likely that it will take longer to establish trust and other important aspects for social capital, as communication is vital for this. However, as a relationship establishes over time, a common inter-firm language also grows and communication is no longer a limitation to the relationship building. Thus, it is our belief that a pre-M&A relationship leads to prior experience of each other's cultures, codes and languages. The occurrence of such problems would then be restricted.

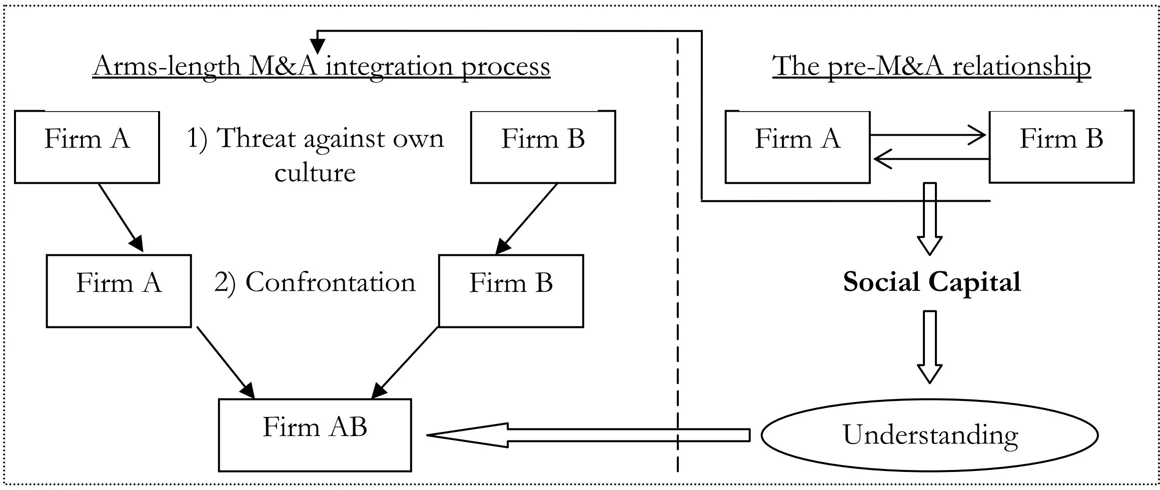
Shared narratives are also important for understanding each other and interpreting events in similar ways. It has been argued to facilitate the exchange of practice and tacit experience between people. It is likely that during a pre-M&A relationship parties have come to hear and become familiar with each others' myths and stories. It might also be that they have developed common histories and heroes as a result of their interaction.

Shared norms and beliefs in the surrounding environment are also likely to influence the value of social capital. For example, entrepreneurship might be seen as legitimate in one context, whereas in another context it might be seen as opportunistic and self-seeking (Adler and Kwon 2002). Norms and sanctions promoting openness, teamwork, and cooperation have been argued to be found within knowledge-intensive firms. Hence, we believe a sound atmosphere for capability transfer and a collaborate spirit can partly arise due to industry-wide norms and sanctions where collaboration with many actors is important. Consequently, even though not the focus of this thesis, one must also be aware of the fact that the surroundings of the two firms might influence the value of social capital created and later the value creation in the M&A process. In turn, this might also mean that one should be careful to ascribe the pre-M&A relationship and social capital developed too much importance in certain situations.

5.1.7 Diminishes cultural hostility

The above analysis has illustrated the many potential roles and routes that social capital and a previous relationship could have in the M&A process. Cultural integration is an important aspect of the integration process, not least in international M&As, where there is a great likelihood that cultures differ to a large extent. The cultural integration process consists of three steps. The first step is the threat against the own culture and the second is the cultural confrontation, when both firms become aware of and evaluate the other's organisational culture. A previous relation is likely to drive employees to not feel threatened but instead to become aware and evaluate the other firm's culture. In such a situation, this evaluation is carried through in a neutral setting where the employee can objectively analyse the positive and negative sides of both organisation's cultures. This objective setting can not be achieved in the M&A process and will most likely result in a more fair judgement. A pre-understanding of the other firm's culture is likely to reduce the cultural stress and give a propensity to not be afraid of the other culture and increase the willingness to adapt. Maybe the cultural integration following a merger between two firms with a common history can jump-start at stage three, the acculturation, as illustrated in figure 5.

Figure 5: *Overview of how a previous relationship can influence the cultural integration*



Source: Lindau-Jonsson and Persson (2003)

It might also be the case that in a pre-M&A relationship parties start to share each other's values, beliefs, and assumptions as a natural consequence of the pressure-free interaction between the companies.

However, it is important to point out that these effects will depend on the network configuration and appropriability. They will depend on, for example, the density of ties. Our interest is, for example, if the relationship is based only on ties between management, or if ties can be found throughout the firm, and how and if this "relationship-width" is of importance. It could be, for example, that if a relationship is solely between top management, it will not impact the integration in any aspect or it could lead to hostile feelings in other levels of the firms.

5.1.8 Facilitates creation of intellectual capital

Nahapiet and Ghoshal (1998) have described how social capital facilitates the creation of intellectual capital. In line with previous reasoning concerning social capital in an inter-organisational context, a business relationship between two firms, in which social capital has developed, is thus also likely to lead to the creation of intellectual capital (Adler and Kwon 2002).

Interaction and the sharing of experiences, knowledge, resources, and information are common goals of M&A. In a pre-M&A relationship, a cooperative atmosphere most likely exists, as mentioned before. With this, routines for communication, transfer of skills and capabilities, and an understanding of the other part are already established. The condition for creation of intellectual capital is thus founded and tested before an agreement is reached. The value destruction can hence be limited or reduced *as long as* the conditions and forms for the cooperation after the integration are not completely different.

5.2 Negative consequences of social capital

Having presented a number of benefits that could potentially arise from social capital, it is now important to note that it is dangerous to only view social capital as something positive. Social capital may just as well be useless or harmful. It is possible that a "merger situation" will always be so different from a "cooperation situation" that in fact it will never make any difference whether the firms have had a previous relationship or not. These aspects will also be considered in the empirical investigation. A discussion concerning negative consequences of social capital will therefore follow.

First, it should be noted that firms that have neither internal nor external ties obviously will not develop high levels of social capital. Equally, a firm with high internal linkages but low external linkages is neither likely to develop strong social capital as a result of the inter-firm relationship. Additionally, if ties are low, it might lead to reduced solidarity within the firms, which might harm the inter-firm relationship in the end. (Adler and Kwon 2002).

5.2.1 Overinvestment

Investments in social capital are not possible to reverse or convert without any cost. Therefore, unbalanced investments or over-investments in social capital can create constraints and liabilities. Further, social capital investment may not always be cost efficient. Sometimes weak ties are said to be more effective than strong because they are less costly to maintain. (Adler and Kwon 2002).

5.2.2 Becoming locked with a partner

Social capital can "lock" or "over-embed" a firm into a relationship with the "second best" partner, as strong solidarity and commitment can lead to tolerance of undesirable things. Social and personal relationships can thus hinder actions and reduce the flow of new ideas into the group (Carroll and Stanfield 2003, Hocutt 1998). In some cases when ties are strong it hinders others to access the network, resulting in missed opportunities of collaboration.

We also suggest business relationships could lock partners into a relationship which is sustained for reasons other than benefits for the firms' stakeholders. One article for example pointed to the importance of golf in business life. Is it then possible that two firms continue to cooperate, not because the relationship is economically beneficial or creates value or opportunities for one another, but rather because managers have developed a deep personal relationship, because they belong to the same social club or equivalent. Such a pre-M&A relationship of course has other prerequisites to successfully enhance value in the M&A process, as compared to a relationship based upon fundamental value gains and sustained on strong bonds, commitment, and trust. Therefore, the motive and nature of the pre-M&A relationship are important to this discussion

5.2.3 Reforming cooperative conditions

A deep and evolving business relationship naturally embeds the firm in its network of relationships. As previously discussed, this embeddedness, or rather the fact that two merging firms might be embedded in different settings, makes the integration of firms difficult. This is because longstanding relationships with firms involve so much investment, ties, bonds, commitment, and trust which then have to be broken or reformed. It is possible these problems could also appear when a pre-M&A relationship has been established and its routines and conditions have been stated. If the conditions for the relationship or cooperation change, is it possible that confusion and problems that appear will actually be larger than if the two partners never met before? Further, it is thus possible that social capital developed in the pre-M&A relationship served its purpose very well in that context but when put in the context M&As, it might not fit any more. Hence, we would like to point out that it might not be possible to assume that the conditions and factors that hold for a pre-M&A relationship will hold after an M&A. There might be a change in the balance of power and changes in management structure and influences and these changes might in turn change the conditions for the previous relationship. Thus, it might be dangerous to assume that a working relationship can be kept after a drastic change such as an M&A.

5.2.4 Blind the organisation

A previous relationship might equally create overly high expectations and blind the organisation to the large changes and challenges a merger or acquisition actually consists of. As stated above, lack of attention to the integration process, both in terms of effort and resources, is one of the most common pitfalls resulting in failure. Hence a previous relationship could in fact predispose the merger or acquisition to failure, rather than success.

5.2.5 Erosion of trust

M&As are very special occurrences and it is possible that many aspects, actions and activities during the process could erode trust created earlier. Further, the trust in the partner's ability can create too high of expectations for the M&A. These expectations are then likely to lead into disappointment which could eventually erode the trust created earlier.

Even though the discussion has mainly argued for a positive role for a pre-M&A relationship and social capital in the M&A process, all the above possibilities will be considered during the empirical study. The empirical study will thus *not aim to justify or prove the theory and initial beliefs wrong*; the empirical investigation will instead *examine the reality*. Our understanding of the reality will then be analysed and compared to theory and our initial understanding. *Then* these will be justified, dismissed, or amended.

6 RESULTS AND CASE-ANALYSIS

This chapter will present the empirical findings in the form of case-stories. This enables the reader to easily access results as well as it aims to capture the atmosphere and essence. For this reason we have also chosen to use first names rather than titles and sir names. All information presented is from the subjects interviewed (see section 2.2.2) if not otherwise stated. After each case a case-analysis will follow.

6.1 Case A: Abigo Medical AB-DHC

The Abigo group is privately owned and consists of the mother-firm Abigo Medical AB and its three sister-firms. Abigo Medical AB is a fast growing Swedish Bt/pharmaceutical company that develops and produces its own products as well as promoting these in the market. The product line holds 35 pharmaceuticals and products for wound care and ear de-pressurising. The firm conducts R&D, in which it cooperates with academic researchers and institutions. The three sister-firms are Dansk Helsemiddel Center A/S (DHC), Abigo AS in Denmark and Sylak AB based in Sweden (www.abigo.com). This case study has focused on the Danish sister-firm DHC.

DHC is a distributing sister-firm wholly owned by Abigo, which markets a broad product line of their own and licensed self-care products. DHC specifically focuses on naturopathic pharmaceuticals and is one of the leading firms in the Danish market (www.abigo.com).

DHC started in 1979 and at that time was a pioneer in the Danish health food market. A few years later, in 1982, Abigo was searching for a Danish distributor and screened the Danish market for a suitable partner. Jan and Leif, Abigo's owners, came across DHC and a meeting was arranged. They met and DHC immediately won Jan and Leif's trust and respect as Jan, Leif and the former owner, Henrik Müntzberg, "clicked". They got on and there was a mutual feeling of connection. DHC was thus chosen as a partner. *"DHC was not chosen because they were the best and largest distributor in Denmark, but rather because the personal chemistry felt good, they were good people",* Leif commented. As a small private firm the owners did not have to justify their decision to anyone and criteria for choosing a company to acquire, or anything similar, were therefore not set.

The distribution agreement lasted for five years, until 1989 and throughout this period no written contracts were ever established; "*it wasn't necessary – we trusted* *them and they trusted us"*, Jan said. "*Anyway, I think oral agreements are stronger then written ones and this is how we do business",* he continued. The relationship functioned as an ordinary distribution agreement. DHC bought Abigo's products on invoice as often as their stock ran out and there was no sales commission. Jan and Leif had no formal influence over the sales and marketing materials. However; *"for sure we had control"*, Jan laughed meaning that to a certain extent they decided what could and could not be said or shown about their products.

In 1989 Henrik suddenly and unexpectedly passed away and DHC faced an uncertain future. Without a buyer the firm would have to shut down. As Abigo's products were the core of DHC, the estate administrator approached Jan and Leif and asked if they would be interested in continuing the agreement if another firm bought DHC. Abigo at that time was dependent on DHC for their sales in Denmark and wanted to continue, but only on the condition that they felt comfortable with the new owner. "*Personal chemistry, contact, and respect is essential for business, all business is personal"*, Leif explained. DHC's board suggested a few interested buyers who came to visit Abigo in Gothenburg, but Jan and Leif did not think anyone was good enough. Instead they started to discuss the opportunity for them to actually buy DHC. After all, they knew DHC, its business, and personnel. Further, DHC's sales were high in Denmark. More importantly however, Jan and Leif had earlier noticed an opportunity to develop and further increase the business in Denmark. A few weeks later, Abigo bought DHC and today that opportunity has been realised. DHC's turnover has increased from 5 to 25 million SEK since Abigo acquired it.

The relationship between DHC and Abigo had, prior to the acquisition, been between Henrik and what he, according to Jan and Leif, called "*his Swedish brothers*" (Jan and Leif). Jan and Leif characterised it as a good business relationship. The geographic distance was too long for friendship to develop. The relationship nonetheless developed and strengthened over time; "*trust was crucial"*, explained Jan. "*However"*, Jan continued, "*it was also important that DHC was successful with Abigo's products, without that fact the situation would have looked different"*. When discussing the relationship Jan and Leif reminisced and mean; "*I think it worked because we had the same approach and general philosophies, even more so after a while. Of course there are always things that differed and that we wanted to change, but it wasn't ours to change"*. It was directly after the acquisition that such things were actually changed. Jan and Leif also think they learned something about Denmark and the Danish approach. Even though it seems like Henrik, Jan, and Leif had a close relationship, the other employees at this time regarded Jan and Leif as just any other client; "*but we did think they where nice guys*", Annegrethe commented, "*but then all our clients were*". Lars and Annegrethe agreed they did not feel attached to Abigo prior to the acquisition; "*all we did before was meet once a year or so for sales-meetings. After the acquisition a real and deep relationship was built as Jan and Leif went into the whole firm and today we have a very good relationship*", Annegrethe continues.

"Without the relationship we would never have bought DHC, especially since an acquisition at that time was really outside our plan", Jan said. "*However, we knew them, they where good people and we felt a lot of trust – this was an opportunity we couldn't miss*". Abigo was thus not looking for a firm to acquire.

"The negotiation process was very quick and smooth, as it was a win-win situation", Leif said. When discussing the evaluation process and price paid for DHC, both Jan and Leif believe they got a really good deal. This was based on a number of things. At that time, DHC owed Abigo quite a substantial amount of money, which gave Abigo a good starting point in the negotiation process. "*However, more importantly we all knew each other and we could talk openly. The process was very informal as we already knew DHC, both its strengths and weaknesses, and thus the risks involved*", Jan and Leif continued. "*We knew what we would have to deal with once an agreement was reached. Overall it was really an easy process, the evaluation and negotiation were both coloured by the fact that they wanted us to buy and we wanted to buy",* Jan ended.

The announcement that Abigo acquired DHC was positive news for DHC and all theemployees felt relieved, as previously their future had been uncertain. "*We were also happy Abigo was the buyer as we knew their products*", Lars said.

Since the agreement was reached all involved agree that the relationship has positively evolved and developed. In fact, at DHC employees think it is only at this time that it can be considered a relationship, while Jan and Leif see the situation differently. But this has a natural explanation, as it was really with the former owner, Henrik, that Jan and Leif had their relationship. From their point of view, the positive picture and trust they had gained with DHC through Henrik never changed even though he passed away. Similarly, DHC's employees' had known about the relationship between Henrik, Jan, and Leif and were happy to be acquired by Abigo. The relationship between the two firms is strong today, both from a business and personal point of view, according to Jan and Leif as well as Annegrethe and Lars.

Functionally, there is good cooperation between the mother- and sister-firm today. There has been a low level of integration, as Jan and Leif do not think they have anything to win from interfering in DHC's daily business – "*they know their products and their market and should therefore be the ones to run the daily business. The only real daily difference is the financial reports we send to Abigo once a month and that we discuss problems with them",* Lars points out. "*But then of course they are involved in budget and target setting"* he reflects *"and we need their approval on new products and contracts".* This daily independence is appreciated at DHC. However, it is very clear that Jan and Leif have full insight and the final say in all important decisions. "*We handle external conflicts, business agreements, export issues, and other strategically important issues for DHC"*, Jan says. Further, Jan explained that the two firms also utilise each other's networks and share knowledge, even though this is currently mostly from Abigo to DHC. For example Abigo holds important product knowledge, which is transferred to DHC. "*Abigo holds much important knowledge, like strategic, internationalisation and also other knowledge"* Jan continues. "*Of course we want to share this and our extensive network with DHC, we own DHC. The previous relationship has really helped in these matters; we have always known that Jan and Leif think we are good. We are good at selling their products, so we get investment back and that is really important"*, Annegrethe remarks.

There is also socialising between the firms, for example, they have Christmas dinner together every year, every other year in Denmark and Sweden. These social events also bring a cultural understanding, both Abigo and DHC learn about the Swedish/Danish as well as the Abigo/DHC culture and traditions. In fact, Jan and Leif believe this learning began during the previous relationship, but at that time they mostly learned about DHC corporate and management culture through the former owner. Further, Jan and Leif think such understanding, gained through the previous relationship, surely helped in the whole acquisition process. "*Maybe it has also helped in the integration specifically, but then without the relationship there wouldn't have been an acquisition and then no integration",* Leif laughs. Annegrethe also thinks she learned from the previous relationship but more in general terms; "*you always do from collaborations".*

However, it is important to point out is that she did not think she learned anything about Abigo's culture before they were acquired. As the relationship has developed Jan and Leif hope they have transferred some of their business philosophy of always taking a long-term perspective and aiming for stable development. In this manner they seek to create a kind of a common culture at the same time as having independent corporate cultures at DHC and Abigo.

6.1.1 Analysis

– Nature of the pre-M&A relationship

During the time span of the distribution agreement, the scope and width of the cooperation never changed. Nonetheless, the relationship evolved and deepened. To start, the firms over time became dependent upon each other. DHC was successful with Abigo's products which constituted the core of their business. Equally, Abigo's profit was dependent on DHC's sales. This dependency is likely to have resulted in motivation to further invest in the relationship. This enabled strong social capital to develop. This will be elaborated below. Further, the initial relationship between Jan, Leif, and Henrik created opportunities for learning. The people directly involved learned mainly about each other's business philosophies and management cultures. In fact, the firms in this aspect also adapted to each other over time, as seen in the case. To our knowledge, adaptation has mostly been discussed in the sense of practical adaptation. Here, it seems like "softer" adaptation is also likely to be a result of social relations in business relationships.

The relational social capital that developed from the relationships between Jan, Leif, and Henrik was characterised by trust, respect, and something that could be called personal chemistry. The matching personal chemistry and their similar opinions on how to run a business seemed to create trust and respect. Interestingly, these feelings arose right from the start of the relationship and formed the basis for Jan and Leif's decision to initiate a relationship in the form of a distribution agreement with DHC. Hence, rather than develop over time, the content of the relationship formed instantly resulting in the agreement reached. In fact, DHC was favoured over both larger and better firms for this reason. Hence from the very beginning, trust and a mutual fondness was seen as an important platform to build a long-term relationship from. Further illustrating the significance of trust in this relationship was the fact that the parties never signed a written contract regarding the agreement and referred to each other as brothers. With the dependency and subsequent investments into the relationship, the relational social capital also deepened and strengthened.

The direct links between the two companies were limited during the pre-M&A relationship, as it involved management only. Hence, the chance of direct employee interaction was also restricted. However, employees seem to have been indirectly affected by the relationship. If anything, it appears as though employees at DHC developed a positive initial perception about Abigo. This is likely to have been based on Abigo's products and the problem free work-routines between the companies. Evidence for this argument is the first reaction from DHC's employees when Abigo acquired them. It was a feeling of relief, which may partly have arisen since they knew Abigo's products and felt comfortable working with them. Even more important however, was the fact that they would not lose their jobs. It can thus be concluded that the previous relationship resulted in this positive picture without the need for social/personal links between people in the two firms. However, crucial to point out is that this positive perception is not the same as the trust Jan, Leif, and Henrik felt. This is interesting; the fact that DHC is a small firm makes one believe that trust created at management level would to some extent have diffused to the rest of the company. However, this was not the case, which implies that trust can not or is hard to transfer indirectly.

— Motive, need and idea

The previous relationship gave Jan and Leif insight into DHC's strengths and weaknesses and they saw potential for improvement and value creation. When Henrik unexpectedly and suddenly passed away, those potentials became a business opportunity and the motive behind their acquisition. Other factors were also important in this context, especially the dependency upon each other and the debt DHC had to Abigo. The fact that they knew both firms had been governed by similar management cultures also contributed to Jan and Leif's assurance that the acquisition would not create major problems or destroy value for the firm. Hence, the previous relationship clearly had a large role in shaping the motive; however it was the profit opportunity which was the driving force. Without it, the acquisition would never have taken place – you do not do business only for the sake of affection. Trust of course also contributed in the way that it facilitated the insight, but without a functional relationship, based on positive results leading to trust, the relationship is likely to have been terminated earlier. Thus, trust only indirectly contributes to the motive.

Due to the circumstance of Henrik's death, Jan and Leif got the opportunity to buy DHC. This was not something that had grown out of the relationship - if Henrik had not passed away, they would have never thought to acquire DHC. However, it can still be argued that the relationship was the foundation for the acquisition, since without it, Abigo would not have been aware of the opportunity. Especially since an acquisition was not even in Abigo's strategy. Nonetheless, the surrounding circumstances were the triggering factor, not the relationship nor the good cooperation. Another point to consider here is that neither Jan nor Leif think the motive behind cooperation and M&As are the same, you cooperate for other reasons then you acquire. Thus, without the unfortunate circumstance Abigo would not have bought DHC, with or without a relationship. However, in line with Anderson *et al* (1994) the commitment to and hence the investments made into a relationship created the dependency, which drove and justified further commitment.

– Search and screening

Search and screening did not occur; the acquisition grew out of a set of circumstances, as explained above. However, DHC's search for a potential buyer was commissioned by the estate administrator. Abigo and DHC's good relationship did have a role here, as they compared their own functional relationship to a new relationship they had to develop and invest in if someone else bought DHC. Thus, the existing relationship, the dependency, and the switching costs made Abigo reluctant to approve a new partner.

– Evaluation negotiations and the resulting agreement

Evaluation and negotiation were alleviated by the previous relationship. Jan and Leif had, as mentioned, gained valuable knowledge about DHC. Thus, even though Henrik had passed away, openness and informality were present during the whole process, as well as a cooperative environment where information could easily be accessed and transmitted. Hence, in line with the Uppsala model (Johansson and Vahlne 1977), the pre-M&A relationship reduced the perceived risk. This, in turn facilitated the negotiation process. The fact that DHC owed Abigo money and that DHC really was in great need of an acquirer also contributed to the smoothness of the process. It gave Abigo a good position to start from. The time spent on these processes was therefore limited. Further, Jan and Leif believe the relationship also meant they got a better price then they would have otherwise.

– Integration, adaptation and current cooperation

The acquisition did not change the daily business at DHC, it seems like the previous relationship has just continued. However, integration has occurred as Jan and Leif are involved in major decision-making. It seems like the cooperation is good in these issues and that DHC has a lot to say in these decisions. This might be based on the relational social capital and the trust Jan and Leif have for DHC. It is also interesting that even though Henrik passed away, they still trust DHC and have never even thought of fully integrating DHC into Abigo. In this light, if no major synergistic benefits can be reached by integration, full integration is just an act to control uncertainties. This was not necessary here because trust based on knowledge was present instead.

If DHC had not felt comfortable with Abigo, it is likely they would have distanced themselves and been suspicious when Abigo started to function as the new owner, making all major decisions. This in turn could have created a lot of problems and hostility between the two. The lessons learned from the previous relationship most likely contributed to the current good cooperation, even though employees at DHC did not feel they knew anything about Abigo's culture. Abigo knew how Henrik had worked and could more or less just continue where he had left off. This gave employees at DHC the notion that Jan and Leif were competent and thus trust was reinforced. Jan and Leif's approach also avoided a leadership vacuum, however this has nothing to do with the previous relationship.

6.2 Case B: International corp. -Bioteknik AB

International corp. was founded in the 1950s and is today an international firm based abroad that offers products and services for implant bone tooth replacement to professionals in dentistry. International corp. is a research focused firm that collaborates widely in R&D. By focusing on its core business, International corp. achieves growth and the firm will continue to invest in its expansions to make the most of potential marketing synergies. International corp. is convinced that in the future, more biotechnological procedures will be used for tooth replacement. Consequently, the company wishes to develop this business area. The acquisition of the Swedish company Bioteknik AB, in 2003, was an important step in this direction (sources confidential).

Bioteknik AB is a Bt firm active in the market of biological dental products. The company develops, manufactures, and markets its' products to specialists in the field of periodontology and dentists treating periodontal diseases. Its' main product, initiates formation of new supporting tissues, which means that it relies on the body's own processes for healing and regeneration of oral tissues. Today the product is marketed in around 25 countries worldwide. Bioteknik AB was established in the 1980s. Their first employee was Denise, who is now the R&D manager. The CEO of Bioteknik AB is Anna, a former President of Bioteknik AB's US sales-subsidiary. The head office, as well as the laboratory, is located in Sweden. At present there are ten researchers working in the laboratory and, in addition, Bioteknik AB is part of a large worldwide network of associates at universities which it relies on for various research projects (sources confidential). In the last ten years Bioteknik AB has struggled to survive and the acquisition was not really a surprise to anyone in the company. In fact, in the past Bioteknik AB had gone through many due diligence processes, since they had had a number of interested buyers.

International corp. and Bioteknik AB came in contact for the first time in 2000, when the CEO's of the two companies met, but this meeting did not lead to anything. However, in June 2002, the firms initiated a small research experiment together. The ultimate aim of this was to test the potential fit between Bioteknik AB's and International corp.'s technologies, to see if Bioteknik AB's main product could be used in conjunction with International corp.'s products. Practically, it was a rather simple project. Bioteknik AB sent its product to International corp. who then conducted the test while Bioteknik AB waited for the result. The people involved from International corp. were Bertil, the biologics division manager, and two persons from the university that International corp. cooperates with. From Bioteknik AB, it was mainly Denise who was involved, even though a few others had phone and mail contact with researchers at International corp. Denise and Bertil did meet in person, spoke frequently on the phone, and participated in the same conferences. The positive project result, which was ended before the acquisition agreement was reached, was in fact the foundation leading to the acquisition.

During this relationship people from Bioteknik AB and International corp. got to know and appreciate each other. During this initial period Anna based her positive feelings for International corp. mainly on marketing material and what was said about International corp. in the marketplace; "*their good reputation created a positive picture even before we met",* Anna said. International corp. and Bioteknik AB also partly shared a customer base, and Anna and Bertil agree that it was good to hear what their common customers thought of the other party, its products, and people. Bertil and Denise, who were both involved in the initial research project, also referenced this positive feeling to the initial R&D project. They learned they had similar philosophies and cultures. Both firms were research focused, European, and rather small companies but the ease with which they could talk to each other, common ideas on how to approach the market, and a dedication to R&D was just as important.

International corp.'s acquisition of Bioteknik AB was a strategic move to gain access to Bioteknik AB's biological division, as International corp. wanted to expand its own biologics division. As this was an important aim, the search and screening was long and thorough. However, International corp. did not have pre-set criteria for the perfect partner; instead Bertil compares it to how you would find a life-partner. *"You don't go selecting from party to party and think match and not match, instead, you more or less know the players in the field and then you consider your choices and things just fall in place or not."* Management at International corp. felt there was a "window of opportunity" and decided to bid for Bioteknik AB. When it fell into place it all went very fast. However, the fact that Bioteknik AB was located in Sweden was seen a negative aspect as *"no one wants to go to Sweden voluntarily and people who heard it were concerned"*, Bertil laughs. This is due, for example, to the image of the Swedish labour laws in Europe.

The motive from Bioteknik AB's side was also clear; they had had financial problems for quite some time and wanted to find a stable owner. It was a number of things that led Bioteknik AB to agree to be acquired by International corp. First of all, International corp.'s motive and strategic decision to develop their biological division was appealing as Bioteknik AB perfectly complemented International corp. here – they even had the previous research project to prove this fit. The acquisition of Bioteknik AB would provide International corp. with expertise in protein chemistry and production, sales and marketing knowledge within the biological area, and an immediate entrance into the market. "*This also meant the acquisition wouldn't lead to layoffs at Bioteknik AB and my people are always my first concern"*, Anna says. Bioteknik AB would instead gain additional resources to continue their development and research, which could further push up sales. International corp. was not the only potential partner for Bioteknik AB at that time however. Bioteknik AB did due diligence for a number of other firms. "*Due diligence is always carried out after the rules, but International corp. nevertheless stood out and impressed us"*, Denise comments. Their management team, for example, came in person instead of the company sending consultants or external partners. In fact, even though another company offered Bioteknik AB a higher price, International corp. was chosen in the end. *"We all liked International corp. because of the people and a sense of belonging*", said Anna. *"It was not like a total stranger came in that we had never heard of"*, she continued. *"Feeling comfortable is important for the whole process and the result, you go in much more guarded otherwise."*

The negotiation phase went unusually smooth. It was personal and straightforward and it involved the CEOs of both firms together with small teams from both sides. "*A large number of investment bankers and consultants were thus avoided"*, Anna says. Bioteknik AB's bankers even said in retrospect that this seemed like the nicest acquisition they had ever seen. This was due to the fact that the two management teams got on extremely well. All in all, the negotiations lasted only four months and *"it just did not happen that people were tricking each other, which otherwise always seems to happen"*, said Bertil. The negotiations were characterised by openness and both parties clearly expressing what they wanted and how. "*International corp. said from the beginning what the plan was and I have never doubted they wouldn't do exactly what they said they would*", Anna explains. Similarly, Bioteknik AB did not try to hide anything. However, both Bertil and Anna point out that a little playing always takes place. Trust was also mentioned as being important for a smooth negotiation process; *"the minute you have trust, everything else can be managed",* Anna commented. "*If trust hadn't been present we probably would have been secretive and reluctant to share".*

Employees were not told about the deal until minutes before the press release. Anna announced the decision and let employees ask questions. As soon as possible she contacted the two largest subsidiaries as well as key customers and got on a plane to meet the employees and answer their questions face to face. "*I think being there in person, so that they can see you, is important"*, Anna says.

Nevertheless, Denise reveals that many employees feel they did not receive enough information about the acquisition and still have not. However, this has not led to any serious consequences so far.

The first reactions among the employees at Bioteknik AB were: *"will I lose my job, will International corp. shut us down, and will we disappear?"*, Anna explains. The same feelings were actually noticeable in International corp., even though they were the acquirers. These feelings of uncertainty and not knowing what is going on usually create dissatisfaction. However, once employees at Bioteknik AB learned about the situation and the motive behind the acquisition, and especially now as they have started to realise that initial promises will be kept, the uncertainty has vanished. Now there might actually be a need for new recruitments and employees feel comfortable again. At Bioteknik AB the most positive reactions are found within R&D and production, since in R&D they have already started to develop new products and in production they see possibilities for an increased workload. Hence, the increase in resources and rising opportunities have created a positive atmosphere within these departments. In addition, Denise viewed International corp. as the best candidate, based on her initial contact with Bertil and experiences from the experiment. This caused her to portray confidence in International corp., which also made people within R&D satisfied. Clara compares the happy situation at Bioteknik AB to colleagues at Pharmacia, where acquisitions have been far from painless. Apart from the initial worry at International corp.'s biologics division, the deal has been well received. Bertil even had an example of an employee that came up to him and said: *"I'd love to tell you that this was a good deal"*.

Innovative capacity, one of the most crucial aspects within this industry, was also affected by the acquisition. Initially, when the employees started to consider the new situation and regulatory aspects had to be revised, it all stopped, Denise explained. However, shortly after that the capacity was enhanced by the fact that Bioteknik AB got new angles and inputs and that more people got involved. There was also a positive attitude among the researchers from the start, due to the successful result of the experiment. Denise believes this shortened the "slow-down" period. Nonetheless, some projects and patents that were considered to be outside International corp.'s focus had to be terminated. "*These might very well be good ideas and opportunities, but* *it is time for someone else to take care of them"*, Denise says "*and even though it is a bit sad for the people involved, they are used to such things happening all the time"*. Finally, Bioteknik AB will still be able to continue with its world-wide cooperation and especially its EU-projects, which were initially questioned. This cooperation has been important for Bioteknik AB and still is since it enables the company to conduct more research than they otherwise could have done. Denise also explained that this cooperation has influenced the R&D department's view of being acquired in a positive way.

Even though the attitude towards International corp. is positive, the issue of being acquired as such has not been appealing to Bioteknik AB for natural reasons, and Denise refers to it as a mourning period. People that have been with Bioteknik AB for a long time felt a bit sad, since they had been owners and gone through many hard struggles together to keep the company alive. "*What was previously our life is now in the hands of someone else and we can't influence decisions regarding the future development any more",* Denise explains. However, new employees do not seem to care in the same way, in some cases they might feel the opposite. International corp. is then seen as a strong and stable owner with resources to invest in Bioteknik AB.

Right after the deal was completed, a number of integration teams, with employees from both International corp. and Bioteknik AB, were formed. These teams have now completed their tasks and the company has thus moved on to real functional project groups. The integration strategy is to bring Bioteknik AB 100% into International corp.'s biological division. At the time of the acquisition, International corp. only had a tiny biological R&D department with five employees, and they did not even have a proper laboratory. Hence, with the acquisition of Bioteknik AB, International corp. is practically starting its biological department and there will be two R&D sites, one in Sweden and one abroad. Projects will be carried out with project managers from both countries. The foreign department will concentrate on bone and implants and Bioteknik AB on periodontology. However, due to Bioteknik AB's larger resources and techniques the Swedish site (Bioteknik AB) will, regardless of the type of project and manager, have a central role. Denise explained that this international cooperative working routine is perfectly normal within this industry and this is how research is conducted worldwide.

For Bioteknik AB's part, the integration with International corp. also involves changing corporate design and guidelines, packaging, marketing material, and boxes. Further, the name Bioteknik AB will disappear but the product brand will be kept. Anna does not believe however that their customers will react poorly, since they identify with the brand, not the company name. Regarding the market, Bioteknik AB's products will have a special sales force in larger markets, while in smaller markets there will be a special product manager. Right now, Bioteknik AB is in the process of coordinating its distribution with International corp.'s, Bioteknik AB has distributors in around 20 countries and International corp. has 14 subsidiaries and another 20 distributors. The aim is to have one sales point in every market.

International corp. will further apply a so-called global strategy throughout its organisation, which means that each individual department in Sweden will report to its corresponding department abroad. Denise personally feels a bit suspicious towards this strategy and ironically suggests; "*it must have been an idea coming from some consultants*". At Bioteknik AB, the CEO, CFO, information manager, and R&D positions will disappear. People at Bioteknik AB will thus lose the persons they used to look up to, discuss issues with, or just communicate with on general issues. However, Denise does not believe it will pose a problem within the R&D department, since they are already used to working internationally.

After the acquisition-decision was announced, there have been a few meetings where management from International corp. visited the Swedish site, as well as some social events in Sweden. "*In this way*", Denise explains, "*people at Bioteknik AB have seen what the people at International corp. really look like, how they act and sound, something that is surely seen as comforting*". The first impression was good and people thought that International corp. seemed nice. The Swedes have not visited International corp.'s headquarters to the same extent yet, but as the process has not ended there will be more combined R&D and management meetings in the future so that everybody will hear about the different research projects. Anna says that management philosophy today is about people working in teams, that is why it is important to socialise in a relaxed environment. She feels it is especially important because of the distance between the two sites. "*When the employees have had the chance to get to know each other on another level, they will have a lot easier time picking up the phone to ask a question*", she continues. *"Then you* *send your e-mail to a face, not to cyber space…it is all about the people, if people do not communicate, nothing will happen".* According to Bertil, the global strategy is part of the aim to get employees from both companies to feel part of one team. This goal has not yet been reached however. Employees both at International corp. and Bioteknik AB still feel like "we and them". In fact, it might be difficult to get employees to truly feel like "we", especially at HQ were there often is talk about "we centrally" and "the others out in the subs", whereas people out in subsidiaries are more prone to identify with a corporate "we".

Talking about cultural integration, Bertil explains; "*I believe that culture is important, but that it cannot be changed because it is deeply rooted in individuals and society".* The only solution, as he sees it, is to find a culturally compatible partner. In this respect, he feels Bioteknik AB and International corp. are a good match, mostly due to the fact that International corp. is culturally similar to the Swedes in many aspects. Further, he also believes that people from his country are used to working with other cultures as they have many cultures in the same country. In addition, both countries are small countries. He ends with a smile and explains that International corp. does not have room for cultural clashes and stubborn employees that negatively affect the business and innovative capacity. *"Fire them all"*, laughs Anna, when asked what would happen if negative stress occurs among the employees as a result of cultural issues. The reason why Bertil and Anna do not seem to take the question of cultural integration and possible negative consequences seriously, might be that there have been no major cultural clashes neither with respect to corporate culture nor regarding national culture. Bertil further believes that it would not serve their purpose to try to reshape Bioteknik AB to be like International corp., nor strive for the same culture worldwide, since International corp. believes local adaptation is vital.

In the context of cultural differences and similarities, it is also interesting to note that there seems to be an international research-culture, which might also contribute to the absence of cultural clashes and negative emotions among the employees in this case. International corp.'s research team within biologics is a good example of the international culture characterising R&D. The team consists of five researchers and together they represent four different nationalities. This means that even though International corp. as a whole might have a certain corporate culture and is influenced by its national culture, this research group is not heavily affected by it. Instead, the cooperation with the Swedish research team is perfectly normal to them and reflects their daily work. This is further emphasised by Denise who mentioned that the fact that Bertil was a researcher made her feel more confident and positive towards International corp. This might further ease the cooperation and integration between the companies in the future, as it is within R&D that the closest cooperation will take place. However, this also implies that researchers involved in the initial experiment did not learn much about each others specific corporate and national cultures.

The acquisition has so far lived up to the expectations held by both International corp. and Bioteknik AB. It is too early however to definitely evaluate the outcome, this will first be possible in a year and a half. Bertil admits that there is a lot left before the acquisition can be regarded as successful. There might very well arise problems in the future; "*when the first shipment does not make it*", Bertil puts in. "*However, we have many things on our side",* he reflects. Talking about the success of this acquisition, Denise believes the most critical aspect is that Bioteknik AB and International corp. complement each other so well; "*and I really hope International corp. will take care of and develops Bioteknik AB's products"*.

It can thus be said that so far, this acquisition seems to have a happy ending. Bertil says that the whole operation has gone smooth and there have been no major conflicts. Anna explains that Bioteknik AB has been extremely fortunate to be acquired by International corp. and that such happy marriages are uncommon. In many cases, a whole pipeline or specific technology is acquired as it is, while in the case of Bioteknik AB and International corp., there was a potential to develop the two technologies individually and also to merge the two technologies. According to Denise, the largest problem overall has been the situation facing Bioteknik AB's marketing subsidiaries in Europe, where rationalisation is necessary. The employees affected will be offered to move to International corp.'s office, but since it involves long-distance movement, not all are prepared to accept the offer.

Conclusively, as indicated, views differed regarding the role and importance of the experiment in the subsequent M&A process. While Denise said that the initial cooperation developed into the current cooperation within biologics, which also was the motive behind the acquisition, Anna did not even consider it important. Denise explained it in the following way: *"some kind of initial positive foundation to build from developed from the times we met and talked to each other"*. She shared this view with Bertil, who expressed it as: *"The project was like a first date"*. Overall, the initial experiment seems to have mattered to International corp., as they noticed afterwards that there was a good combination of technologies and started to think about how an integration of the two departments would work out. The previous relation also enabled Denise to look more closely at, and examine, International corp.'s technique before the deal was signed. She got to see what their product was based on and which patents they had and this would not have been possible otherwise. She also believes that a previous relation makes it possible to move faster in the beginning of the M&A process; "*as you can run faster when you know each other"*. In short, International corp. to some extent knew what they bought and Bioteknik AB knew what they got, hence the surprises are lessened.

As we had the opportunity to partly hold the interviews with Anna and Bertil together, we got to experience the atmosphere in the room and it hit us that it actually was as relaxed and positive as described. They both laughed a lot together and in the end they even joked about holding seminars together about how to make your M&A successful.

6.2.1 Analysis

– Nature of the pre-M&A relationship

The relationship was initiated when the research project started. It only directly involved Denise, Bertil, and the background researchers which meant that opportunities for direct interaction and social connections were not corporation-wide. During this initial period Denise and Bertil had contact and occasionally met outside both firms, e.g. in conferences they both attended. This gave them a chance to interact and shape an opinion of each other in an outside and neutral environment. There they could discuss the progress of the project, but also other general work-related issues. Through each other, they learned Bioteknik AB and International corp. had similar corporate cultures, in which R&D was the main focus. R&D was also Denise and Bertil's common background and interest. This is also likely to have facilitated the interaction and connection found between them. However, it is important to point out that trust was not a characteristic of the pre-M&A relationship, nor was there a personal level of the relationship. Nevertheless, a positive atmosphere formed between them and their firms, without which the research project would have been harder to achieve.

– Motive, need and idea

The motives from both parts were very clear and not a result of the pre-acquisition relationship. Earlier International corp. had taken a strategic decision to develop its biological division. Bioteknik AB needed resources to continue their business. The motives existed even before the research experiment and relationship between the firms was initiated. The motives nevertheless proved to be important in later stages, even though not a result of the pre-M&A relationship.

– Search and screening

Bioteknik AB had several acquisition offers and the power to choose who was going to be the acquirer of the firm. However, the previous relationship influenced their search and screening process. Bioteknik AB paid attention to the pre-acquisition relationship in their decision to let International corp. buy Bioteknik AB. The positive research result and the positive picture they had of International corp. were important.

Without positive results on the initial research project it is highly unlikely that International corp. would have pursued this acquisition. The technical fit was thus essential and the underlying motive for International corp. However, Bioteknik AB had a number of offers and it is likely also that these companies had tried the technical fit between Bioteknik AB's and their own technique. This is possible and very simple. Bioteknik AB, contradictory too many other Bt firms, actually has a product on the market. Hence, the product could be purchased by any company and tried with their techniques. However, other aspects were also influential.

To start, from Anna's point of view she formed her positive picture of Bioteknik AB from recommendations and opinions from Bioteknik AB's and International corp.'s common customers to a large extent. This is interesting, since it indicates that the companies, to some extent, were embedded in the same network even before they had been in direct contact with each other. Thus, the shared embeddedness at an early phase affected the M&A process positively. This was a result of the fact that they were active within the same area of Bt, not the pre-acquisition relationship. Anna also put weight on International corp.'s goals and strategies used to reach these. She analysed this partly from what they had already done, from marketing material and other material available in the market, but also from the times she met with International corp. The positive feeling she had before she actually met them was then confirmed and reinforced when they did so. She liked International corp. and their culture, they connected and a sense of being on the same level was formed.

For Denise and Bertil this positive attitude was also based on the interactions during the initial research project. The very fact that they pursued such an experiment revealed International corp.'s research focus and future strategy for Bioteknik AB. One speculation is that Denise especially could have been more reluctant to be open and positive towards International corp. She is Bioteknik AB's first employee and very attached to Bioteknik AB, she has been through all the ups and downs and survived them all – in many eyes she *is* Bioteknik AB – and the thought of an acquisition was of course upsetting for her. However, she had the opportunity to form her own opinion in a neutral setting where pressures and stresses were absent.

Further, the positive result of the research experiment seems to have opened International corp.'s eyes for the specific opportunity to acquire Bioteknik AB. In the same way, the initial cooperation seems to have made Bioteknik AB realise what a suitable partner International corp. would be. Hence, the research project can be seen as a visualisation of the opportunity. Put in another way, it can also be said that the pre-M&A relationship made the companies realise opportunities for future value creation. These opportunities together with the mutual appreciation most likely influenced the final decision to merge. Bioteknik AB actually turned another company down even though they were offered a higher price. Bioteknik AB thus monetarily valued the corporate and technical fit, revealed through the pre-M&A relationship, to the extent that they accepted a lower price to be sure the new owner was one that they felt comfortable with.

– Evaluation negotiations and the resulting agreement
The negotiations were characterised by openness and smoothness, which resulted in a short process. International corp.'s motive to develop their biological department, meaning Bioteknik AB was reassured the company would be taken care of and developed, clearly contributed to this atmosphere. Thus, the previous relationship did not have the primary role. Nevertheless, what was created in the previous relation meant Bioteknik AB knew International corp.'s motive was honest and sound. Thus, the fact that they got on and had a positive picture of each other surely also alleviated the processes. Bioteknik AB and International corp. were both there due to a conscious decision that they wanted each other. It is important to point out that the price Bioteknik AB received was not the determining factor leading to the choice of International corp., which further strengthens the above reasoning. The companies' sound attitude towards the negotiation process, working with small teams and few consultants also eased the process, which should not be forgotten.

The pre-M&A research experiment in this case could be compared to early dating. A positive aspect of the pre-M&A relationship then is that the companies have already started to become familiar with each other when they merge. This shortens the M&A process, at least in the beginning, as seen by the short negotiations in this case.

– Integration, adaptation and current cooperation
Interestingly, the positive feelings management had towards International corp. did not prevent initial anxiety among employees in both companies when the deal was announced. This anxiety also affected the innovative capacity, as everything slowed down for a while. However, it did help in that this anxiety was very quickly overcome and transformed into confidence. Denise played an important role here. It was important that employees experienced that promises were kept. International corp. has thus succeeded with communicating its intentions during the M&A process.

The pre-M&A relationship is argued to, via Denise, has influenced employee attitudes within R&D. Her positive attitude and confidence in International corp. - she who knew all alternatives and was always striving for the best of Bioteknik AB - transferred the faith to the employees in that department. This is an interesting indication of transferability of positive attitude developed as a result of the pre-M&A relationship, as well as of the importance of key persons for such a transfer to occur. The reason employees feel comfortable with International corp. is thus twofold.

The integration has not been affected by the previous relationship to a major extent. International corp. always aimed for full integration, but the initial project did prove this was technically beneficial however. In this way a costly trial was avoided and management knew the initial justification would hold also after the agreement was reached. Determinism was thus avoided. Further, the common embeddedness also mattered for the integration of sales subsidiaries as common customers will ease and create synergies here.

In Bioteknik AB, we believe the positive attitude of Anna and Denise has had positive influence on employees. Specifically Denise, as she stands for a lot of continuation and Bioteknik AB's other values. The fact that Denise and Anna are leaving Bioteknik AB is however sending double messages, which could confuse employees and ultimately trust can be broken down. If it is so great, why are they leaving? This could in turn have serious repercussions, as discussed in the theoretical chapter. Loss of solidarity, unwillingness to work towards common goals and cooperate as well as loss of innovative capacity are a few examples. Loss of key employees and management is a common phenomenon in M&A and it often has larger long-term negative effects, which are often foreseen by the acquiring firm. This is a potential future risk that International corp. should be aware of.

The motive behind the acquisition was from International corp.'s side to gain access to Bioteknik AB's R&D, techniques, products and overall know-how. The integration within this area has so far gone smooth. However, we believe this might be the result of a global research community, with a language and culture of its own. The question is thus how many problems may actually arise when integrating R&D departments. The fact that there is large technical and complementary potential between International corp. and Bioteknik AB is also likely to have contributed to the smoothness. It increased the motivation of employees, thereby contributing to value creation in the M&A process.

The fact that a “we-versus-them feeling” is still present among employees illustrates that the research experiment did not create a common identity. In fact, it could actually be a sign of hidden hostility among the employees at Bioteknik AB, even though everything appears fine on the surface.

6.3 Case C: Wilh.Sonesson-Bioglan AB

Wilh.Sonesson is a Swedish company that produces, distributes, markets, and sells products that improves people’s health and well-being. Products include non-prescription and naturopathic medicines, nutritional supplements, vitamins and minerals, as well as registered pharmaceutical dermatological products. The company is foremost marketing focused and develops and sells strong brands in the Nordic consumer healthcare market. Production and distribution are complementary activities which create synergies and give Wilh.Sonesson a critical size. With its turnover of about 700 MSEK the company is among the larger actors in the market. At present, Sweden is Wilh.Sonesson’s main market but the firm is striving to become the leading consumer healthcare company in the Nordic market (www.wilhsonesson.com).

Bioglan was founded by independent scientists in 1984. In 1987 the start up was sold to a Norwegian firm, which was acquired by the British company Bioglan, in 1994. The British parent company went into administration in 2002 and left Bioglan AB to find its own destiny. In May 2002 the company was split and the R&D unit was sold to the British corporation SkyePharma and then the remaining two parts (marketing and production) were acquired by Wilh.Sonesson. Thus today Bioglan consists of two companies. The first, Bioglan Nordic Market, markets and sells pharmaceuticals in the Nordic countries, foremost dermatological and pain-relief products. The second firm is Bioglan AB, which is the contract pharmaceutical manufacturing division of Wilh. Sonesson AB located in Malmö, Sweden. This company is specialised on contract manufacture of pharmaceutical semi-solid formulations for topical use and produces for Bioglan Nordic Market, Wilh.Sonesson, and around 30 other pharmaceutical companies in Europe, Asia, and the USA (www.wilhsonesson.com).

At the time of the acquisition, in 2002, Totte Malmström was (and still is) Bioglan’s CEO. When the bankruptcy in the parent company was a fact, Totte considered many options for Bioglan, but selling seemed like the most suitable option at that time. For this reason Totte contacted a number of people in the industry. As he had just weeks previously met Bo Håkansson (CEO of Wilh.Sonesson) he thought it worth while to also contact him. Bo and Totte at that time had no personal relationship, but Totte knew who Bo was and they had met a few times professionally. "*I just phoned Bo and said here you have a great chance*", Totte says. Wilh.Sonesson at that time had not been planning to acquire a company and was thus not searching or screening the market. They had no criteria for a coming acquisition. "*We just got a phone call and with that a great opportunity which we couldn't miss, their products complemented ours*", Lennart Molvin remembers. "*Bo was fast to respond and we liked each other, and from there it just rolled on*", Totte continues. "*It is really like dating, you go out, have a good time, have dinner and then after a while you marry. It was also suitable since we were really glad to find a good Swedish buyer, we had worked for a British and Norwegian owner and were fed up with the cultural issues. All in all, as most things in business, it was just a set of circumstance*", Totte ends.

The evaluation and negotiation process was problem free in this case. The evaluation was very limited, Totte believes the acquisition was based more on personal chemistry and feeling than anything else, even though the two firms did *not* have a prior relationship. This personal aspect or connection is crucial, however Totte also thinks it only matters until the doors are opened, which in this case they were by Bo, after that it is all professional. The evaluation was therefore carried out by Wilh.Sonesson's CFO and was not at all influenced by the connection between Bo and Totte. Equally the negotiations were handled by lawyers and administrators in London. However, Lennart believes this process would have been even quicker if the firms had collaborated before or had a business relationship of any kind. "*Then you know the softer issues and you have a frame of reference and can therefore move faster. We didn´t have that and had to investigate*", Lennart says.

Bioglan's employees received the acquisition decision positively, as they were well aware of the bankruptcy and what could potentially have happened. In this aspect Wilh.Sonesson sees itself as Bioglan's saviours, while Bioglan looks upon the situation in another light. Totte reveals that Bioglan were negotiating with other firms as well.

There was one attempt to integrate the two firms, when Wilh.Sonesson tried to rationalise the organisation in October 2002. The aim then was to share administrative, economic, and financial functions. Bioglan's office staff was therefore moved to Lund. However, this was never successful as the firms were too different to achieve any synergistic effects. Further complicating the matter was that the major part of Bioglan's staff and the production site was still in Malmö. Problems arose and the organisation is now again decentralising and Bioglan is moving back to its old site in Malmö. There was never an attempt to culturally integrate the two firms, as they are operating in different segments. Today Bioglan operates independently within Wilh.Sonesson and continues to report to and share its profit with Wilh.Sonesson.

Conclusively, neither Totte nor Lennart think that it would have made any difference if the firms had cooperated before the acquisitions occurred. There would have still been an attempt to consolidate operations. "*However*", Totte speculates, "*maybe it would in fact be harder to stay professional in hard and difficult situations, when business is bad etc, maybe a personal relationship could limit professionalism. Without a personal relationship*", Totte continues, "*it is easier to deal with it and then move on and continue to work*".

6.3.1 Analysis

– Nature of the pre-M&A relationship

In this acquisition, the firms involved had not previously worked or cooperated. They did not have a pre-M&A relationship and thus social capital did not exist in advance between the firms. This was also the reason why this case was included. Personal chemistry nonetheless turned out to be influential.

– Motive, search and screening

Bioglan's motive was clearly survival and they were actively searching for an acquisition partner. The CEO used his personal network and references in the marketplace to identify a partner. As such, Totte approached Wilh.Sonesson with an opportunity they would otherwise have missed, especially since they were not even searching for a company to acquire. This illustrates the benefits of networking and being known within an industry niche. Totte did not have pre-set criteria; instead he "fished around in known waters". As it happened, Bo was quickest to respond, they met a few times and liked each other. These first meetings are thus important before proceeding with the acquisition, since they reveal if there is a good personal match. Feelings and opinions about each other's business approaches are established and evaluated, as well as reviewing complementary products between the two.

It can thus be concluded that even though social capital was not present at the time of the acquisition, parts involved were looking for a good business opportunity to build their future business relationship on. Parts involved had their own idea of what criteria are important for this, even though it is not outspoken or written down.

– Evaluation negotiations and the resulting agreement

Wilh.Sonesson liked Bioglan since their products complemented each other and they saw future potential with the acquisition. Indirectly, this seems to have developed into trust and a feeling that the personal chemistry was right, since this is what really turned out to matter in the evaluation process. The evaluation was limited and conducted on a "gut-feeling".

The negotiation was carried out by consultants and Bioglan's trustee and was strictly professional. This was suitable, the process was quick and smooth, and no major problems arose.

– Integration, adaptation and current cooperation

The employees were relieved by the acquisition message, since their job and security had been threatened. Hence, a pre-M&A relationship is not very likely to have contributed further to this positive response.

Integration was, in this case, attempted but failed due to the lack of synergies and practical market overlaps. Both managers involved believe and maintain that this situation would not have looked different even though the firms had cooperated before the acquisition-integration was attempted. However, we believe the insight and open communication needed to avoid this is exactly what a previous relationship could give. If firms had previously attempted to collaborate, they might have detected there was a lack of required overlaps to make integration economically rational. At least they might have discussed the issue before just trying it. In a pre-M&A situation this would have been fast and relatively cheap. Now, decision-makers were instead blinded by their initial justification of the acquisition, which partly was to reach synergistic effects.

This has proven to be a pitfall in M&As and also a common phenomenon leading to problems and value destruction.

The fact that everything, except the failure within rationalisation, has run smoothly after the deal was signed is probably due to the fact that practically no integration of the companies is seen as desirable or has been made.

Interestingly, it was thought that a pre-M&A relationship would have had the potential to speed up the whole process even more. This opinion was based on a belief that the parties then are likely to know, right from the start, what they are going into, which will make things easier.

6.4 Case D: Active Skattekonsult AB-Nederman Nordic AB

Nederman Nordic AB (Nederman) was founded by Philip Nederman in 1944 and was from the start a metal-plating firm, but later developed into working with ventilation systems. Today Nederman works with various products aimed to improve the production environment for other companies. It produces and sells products that e.g. improve ventilation, sound levels, pressure and lighting (www.nederman.com).

In the beginning Nederman was a small successful family-firm and when Philip Nederman passed away, his son Bill took over the company. In 1980 the firm had grown and Acke Nyberg was hired as marketing director and Lars-Erik Andersson as CEO. At about this time the company also engaged an external tax-consultant, Bo Håkansson (owner and spirit of Active Skattekonsult AB). Bo came to help Nederman in many financial-related aspects, not only tax issues. For example he handled Nederman's introduction to the stock exchange (then the OTC-list) as well as structuring Bill's personal economy. Bo had full insight into Nederman's economic situation and Bill, Acke, Lars-Erik, and Bo developed a strong business relationship and they became friends.

After the introduction to the stock exchange, Nederman had a couple of joint-owners but the situation became unstable. At that time, in 1985, Bill was starting to feel the weight of responsibility that the company meant and he was worried he would go the same way as his father, who had died of a heart attack, if he continued. Bo, who knew everything about Nederman, its economy, its employees and the "jävlar-anamma" culture, stepped in and offered to buy Nederman.

In 1991, Active had financial cash-flow problems, due to reasons other than Nederman, which was performing positively. Nevertheless, Active had to sell one of its sister-firms and Nederman was an attractive company that they could make a good profit from. Nederman was thus sold off to Esab. Active was sure that Nederman would be taken care of at Esab.

The relationship between the people at Active and Nederman has been characterised as a deep business relationship founded on professionalism; "*after all Bo was hired for money"*, Lars-Erik says. However, all involved also spoke about the extra personal level of the relationship, which in this case seems to have been extensive. It even happened that families met and wives and children were brought along while the others (Bill, Acke, Lars-Erik and Bo and Lennart) were working. The relationship was imprinted by Bill and Bo's fun, creative and dynamic personalities; "*and when these two were together we could do anything"*, Acke comments. They were always open, had a lot of respect and trust for each other, which spread to all employees. "*Basically the personal chemistry fit",* Acke ends.

Active did not have the intention to buy Nederman when the relationship started. Bo and Lennart did however learn a lot about Nederman over the years, both its positive and negative aspects, and thought Nederman was an exciting company. Active became an important part of Nederman and affected its development; "*Active strengthened and gave Nederman an extra push"*, Lars-Erik means. "*The motive behind Active's acquisition of Nederman instead grew from the relationship between two individuals with a large respect for each other"*, Lars-Erik said. Bo knew everything about Nederman and was welcomed. Bo helped Bill in a situation where he wanted to sell but still be sure of the future of his father's company. "*It is important to point out here that Bo's number one motive was still the opportunity to make a profit"*, both Acke and Lars-Erik commented.

Evaluation and negotiations were never formally conducted in this case, it was not necessary; evaluation had been done throughout the whole relationship. "*Bo knew everything and there was thus no risk"*, Acke explained. However, Lars-Erik sees it differently and points to the risk of this; "*Bo evaluated with his heart not his head, it could have been risky"*. The idea of the acquisition evolved from Bills wish to sell the company and the two discussed it informally. Everyone involved believes Bill could have got a higher price from another buyer; "*but he was selling his family-soul and the price was not as important*", Acke says.

Active and Nederman were never integrated, neither practically nor culturally - Nederman continued as before. Active invested and believed in Nederman, they liked the culture and spirit. However, culturally the firms were very different; "*if Nederman's culture smelled like gasoline from the work-shop, Active's culture was shiny from marble in the bank office*", Lars-Erik visualises. Nevertheless, Bo always liked Nederman's culture and spirit and even used it as example in other firms.

"The employee reaction was positive; they knew Bo and thought he was funny and fresh", Lennart explains. *"We went there and told them in person and clarified that we were going to continue to invest in Nederman and that nothing was going to change."* That Bill had "planted" the decision and was satisfied was important for many employees. It seemed like they were happy for him. To avoid confusion, what and how things where going to be said was carefully prepared. "*The thought was that everyone should be told the same thing and as we kind of knew Nederman we could more or less predict the reactions*", Acke tells. Nederman's management, not employees, actually worried the most, but no one left the organisation and no one had to be fired.

Everyone at Nederman were then invited to Active. Cultural differences then became obvious, which at first scared Nederman's employees. But as they realised no major changes were going to take place, they became satisfied. All old traditions were kept, for example the monthly "mass-meeting" continued, when the whole firm was shut down and everything that went on was discussed. The only difference was that Bo participated every now and then, instead of Bill. Other important things, such as personnel trips, Christmas parties and gifts also continued; "*and these are the things people really care about*", Lars-Erik says. The Nederman-spirit was kept, mostly owing to Bill and Bo having similar personalities; "*it was just Bo who smoked cigars and discussed hockey and motorcycles with the lads in the workshop instead of Bill and Bill also continued to visit*", Acke says.

Acke concludes; "*Overall, the relationship was the determining factor for the acquisition. Without a personal relationship, respect, and a functional business relationship Active would not have bought Nederman. The personal chemistry was the platform. Active knew everything* *about Nederman and was part of the evolution of the firm. Thus the risk was small and the trust large. There was an informal hands-on "we'll-fix-it" spirit. We could talk openly about problems, which was important. The acquisition evolved".*

6.4.1 Analysis

– Nature of the pre-M&A relationship

The relationship was initiated on professional basis and at that time there was no personal connection. Bill paid Bo. The relationship developed and deepened over time, much owed to the fact that Bill and Bo got on so well. They were of the same kind and the personal chemistry matched; entrepreneurial spirit, creativity, and dynamic approach were the common denominators. The relationship was special in that it involved tax consultancy, which is very critical and important for many companies. Bo was there to provide much needed help. It is likely that this specific relationship developed extra strong trust and dependency, especially from Bills side. Consequently, it deepened in the sense that over time Bo became a general advisor and source of ideas for Nederman, and even for Bill personally. After a while, he handled most economic issues for the company and structured Bill's personal economy. It actually deepened to the extent that they were seeing each other as friends.

The relationship between Active and Nederman further deepened in that it came to involve other persons at Nederman and Active. The relation was founded on respect and trust, especially between Bo and Bill. However, with time this spread to the rest of the company. We believe this was partly because Bo often visited Nederman in person and took time to hang around the site and chat with other employees. In this way, the employees realised he was just like Bill. Additionally, the fact that the relationship involved others, the CEO and the marketing manager, also meant they could have transferred their feelings to the rest of the firm.

The relationship was extraordinary as it was long, deep, personal, and involved many at Nederman. It further developed an extra personal level. Possibilities for social capital to evolve were many and social capital benefits of trust and a cooperative and open atmosphere where information was easily accessed can clearly be identified.

– Motive, need and idea

The motive for the acquisition stemmed out of circumstances, Bill wanted to sell and Bo was there and thus saw an opportunity. The deep relationship had also meant Bo gained extensive insight into Nederman. As a consultant he had seen and dealt with all Nederman's strengths and weaknesses. It did not involve only economic issues, he had learned about the culture, decision-making processes, management style, and other crucial issues. It can thus be said that his insight into the softer issues also contributed to his perception of the future potential of Nederman. Further, it points to the fact that corporate culture can be transferred and detected as a result of a relationship. As a matter of fact, Bo had even been involved in shaping Nederman's development; he had created the company, as he wanted it, before he even bought it. In that sense he formed his own opportunity. The relationship thus set the scene and created the motive of a profitable investment. It is important to point out, however, that the motive first arose *after* the circumstances created it.

– Search and screening

It is questionable if Active would have acquired Nederman if the previous relationship had not been present. The friendly atmosphere of the relationship meant that Bo had full insight and knew everything about Nederman. This included knowledge about the cultural fit between Nederman and Bo. This contributed to Bo's perception of future potential of Nederman, as practical business issues are easier to change compared to corporate culture.

Search and screening did not occur in this case. For Nederman it is possible that the acquisition would not have occurred without the relationship. Bill was selling his family business. Trust in the new owner was vital. Active was not searching for a firm to acquire, an opportunity just arose. Additionally, the ego-aspect of being perceived as the saviour most likely also played a role for Bo. Psychological factors can thus also be influential.

– Evaluation, negotiations and the resulting agreement

As explained, evaluation in this case occurred throughout the whole relationship. Thus, due diligence was not conducted in this case. The win-win situation also meant no traditional negotiations were carried out. The relationship and social capital created thus played a large role in this stage.

– Integration, adaptation and current cooperation

The employee reaction was positive, much owed to the pre-M&A relationship and the fact that Bo and Bill had similar personalities. They all knew Bo's personality and social capital had developed. Additionally, the fact that Bill had planted the decision and was happy with Bo as the new owner seemed to have mattered for employees. If Bill had not been satisfied, the situation, with the founder disappearing, could have meant traumatic stress. When employees visited Active the cultural clash was obvious, but as employees knew Bo and his personality they still felt reassured. Hence, this did not lead to problems.

After the acquisition, Nederman more or less continued to function as before. All routines, traditions, and cultural aspects of Nederman were kept. This might be due to the extensive knowledge gained during the previous relationship. Further, the fact that Bo had been part of Nederman's development meant he had already started to influence the aspects he thought necessary. Hence, the acquisition was more of a formality.

– Termination

When Active ran into financial problems, Nederman was sold. Instead of the long-term investment Bo had promised, Nederman thus became just another deal. The relationship only mattered as long as it was profitable. When in trouble, neither second thought nor weight was given to the previous relationship, commitment, and trust developed.

Thus, one has to be careful not to ascribe the pre-M&A relationship too much importance. The acquisition would never have occurred purely "for-old-times-sake" or a chance just to be kind. Had Bo not seen potential with Nederman, he would never have taken the decision to acquire it. However, his knowledge about Nederman and the insight into potential future opportunities were gained through the pre-M&A relationship.

7 OVERALL ANALYSIS

This chapter aims to analyse and characterise the nature of the social capital developed in the pre-M&A relationships and how this later influenced the aims and common problems in the M&A process. Other important findings will also be highlighted. To conduct this analysis cases are compared and contrasted.

7.1 Nature of social capital developed in the pre-M&A relationships

The discussion below will outline differences in the social capital that developed in the pre-M&A relationships. The type of the pre-M&A relationship differed in several aspects, as illustrated in table 6 below. It will be discussed in the framework of Nahapiet and Ghoshal's (1998) three dimensions. Thereafter, we will look at what role the social capital created had in the M&A process. Thereby, potential implications of the differences in the social capital created in each case will be dealt with. Additionally, the next section will also include significant findings not attributable to social capital or the pre-M&A relationship.

Table 6: *Pre-M&A relationship characteristics*

Case	Aim	Industry	Length of pre-M&A relationship
Abigo-DHC	Distribution	Biotech	7 years
International corp-Bioteknik AB	R&D experiment	Biotech	1 year
WS-Bioglan	None	Biotech	None
Active-NM	Consultancy	Engineering	5 years

7.1.1 Structural social capital

In the International corp.-Bioteknik AB case there were only few direct links between the companies, limited to top-management. Thus the network density (see page 45) was low. In the Active-Nederman case, the network configuration looked different. In Nederman many employees came in contact with Bo and got to know the kind of person he was. The density was high. In Active however, the density was low, only Bo had a relationship to Nederman. Finally, in Abigo-DHC, the structural social capital was limited in the sense of personal connections. It also involved only top management. However, seen from another angle, the density at DHC can be argued to be high. The employees at DHC were involved in distributing Abigo's products, which can be seen as another type of linkage between the companies. Indirect linkages are also identified in International corp. -Bioteknik AB, where Denise constituted this link. The structural differences are believed to have influenced the relational social capital created, which will be discussed below.

The extensive structural social capital in Active-Nederman and Abigo-DHC, where strong networks ties were the main characteristic, enabled the crucial knowledge sourcing that occurred over time. In International corp.-Bioteknik AB knowledge of the technical fit was instead gained through the result of the research experiment, as research was the primary motive for the relationship.

7.1.2 Relational social capital

In this aspect the social capital that developed in the cases also differed. In Active-Nederman and Abigo-DHC, trust and trustworthiness were clear and characterised the relationships. Relational social capital (see page 47) was prominent. This was both a result of, and maybe also a reason for, common norms in the form of business approach and management cultures. In both cases the matching personal chemistry of the people involved formed the basis for this trust. However, specifically important in Abigo-DHC, was the successful sales of Abigo's products and a problem-free interaction between the companies, such as goods delivery and invoicing. This meant that to a certain extent the trust DHC's employees felt towards Abigo actually was based on non-personal interactions. However, we have seen no signs that the differing bases for relational social capital have influenced the role of the existing relational social capital. We believe the strong relational social capital that has been formed is partly a result of the strong structural social capital.

The relational social capital in International corp.-Bioteknik AB differed in the sense that personal chemistry was not outstanding. The R&D experiment did not involve personal interaction and trust to the same extent as the relationships in the other cases did. It was also not dependent on such factors. Another contributing aspect is that within R&D, relationships and collaborations are very common. Thus it is likely that less weight and personal investment is given to each as compared to, for example, a distribution agreement. Further, the structural ties were fewer. All together, this is likely to have resulted in weaker relational social capital developing in this case.

One common denominator, which might influence the differences in the social capital developed, is time. The previous relations in Active-Nederman and Abigo-DHC were longer than in International corp.-Bioteknik AB. Could it thus be that, in general, time is crucial for the development of relational and strong social capital? Further, the type of interaction that the previous relationship aimed for could also be a decisive factor. For example, consultancy and distribution is likely to lead to more dependency than a small-scale research project. Dependency might lead to increased commitment, which in turn might lead to further investments into the relationship. Hence, this is likely to strengthen the social capital. Additionally, the motive and need for the M&A is likely to have also affected the relational social capital developed. In Nederman and DHC, there was an acute need, and thus a wish, to be acquired. In Bioteknik AB, employees had to realise they had failed and thus needed additional external resources. This is bound to be foundational to the attitude of the acquisition, even though Bioteknik AB was, under the circumstances, happy with International corp.

Thus, structural social capital can enable and influence the development of relational social capital. Time and aim of the previous relationship and the motive of the acquisition are also likely to contribute to differences observed in both structural and relational social capital.

7.1.3 Cognitive social capital

The empirical study has not detected that any form of cognitive social capital (see page 49) was developed in the pre-M&A relationship in any of the cases. When a previous relationship has existed, cognitive social capital is likely to have developed as a natural consequence of interactions. Over time employees adapt expression and communication to each other unconsciously. Over time they further gain common stories and events to refer back to. However, as these issues are so natural and unconscious they are hard to detect or investigate in a research project such as this. Even though this was attempted, none of the subjects could relate to the issue.

In International corp.-Bioteknik AB, the previous relationship was within R&D. As mentioned the research community already seems to have a language and common frame of reference of their own. Does this imply that cognitive social capital already exists on a “niche-wide” basis? However, in the rest of the company, a lack of cognitive social capital might well later become a problem, when employees interpret messages, decisions, and communication differently. Especially since both sides are communicating in their second language, English. Both are then likely to express what they mean in an unclear manner.

The discussed findings of the levels and nature of social capital are summarised in table 7 below.

Table 7: *Strength of the different dimensions of social capital (S.C)*

Case	Structural S.C	Relational S.C	Cognitive S.C
Abigo-DHC	HIGH	HIGH	X
International corp-Bioteknik AB	LOW	LOW	X
WS-Bioglan	---------------------------------	----------------------	-------------------------
Active-NM	NM:HIGH Active:LOW	HIGH	X

7.2 Social capital in the M&A context

7.2.1 The process view

The cases and the case-analysis confirm that the process view (see page 22) is a realistic view of the M&A process. We have, for example, seen that motives have strongly influenced the negotiation process and how employees have reacted to the news of being acquired. Employee satisfaction in turn avoided common problems in the second phase of the M&A process. Less problems in the overall process also means less value destruction. Shorter evaluation and negotiation processes as well as shorter "slow-down" periods after the announcement of the mergers are such indications observed in our study. In line with Haspeslagh and Jemison (1991) we believe that the smoothness and ease with which the M&A process is gone through contributes to long term value creation.

Another thought behind the process view is that constant changing environment and unpredictable human responses make pre-M&A strategic analysis and financial evaluation far from reliable. It is therefore argued that synergies cannot be estimated before put in practice. However, the result of our studies show that through a pre-M&A relationship synergies can indeed be realised before the deal is signed. In this context, we have seen that both soft and hard synergies are important, and that especially the soft synergies are much easier to evaluate as a result of this.

In all cases, the pre-M&A relationship has exposed potential through organisational and human issues. For example corporate culture, management philosophy and decision-making processes have been possible to evaluate, factors very important for efficiently running a business. These issues are perceived as harder to change, compared to other practical issues, which further emphasises their importance. When evaluating future potential, examining financial reports and balance sheets reveal the company's history. However, a pre-M&A relationship can additionally and maybe more importantly, give an insight into future potential. It is commonly recognised that a business is only as good as its employees and that human issues might destroy value. The literature review showed that management tends to rush through M&A processes and forget to consider softer synergies. However these issues prove important, as human-related problems are commonly occurring, which is why our finding might be even more important and interesting. Our findings indicate that considering soft synergies is important before the deal is signed and that a pre-M&A relationship provides an accurate evaluation of these issues, as they can only truly be evaluated when put in practice. Hence, a pre-M&A relationship makes evaluation of softer synergies more reliable and complete.

Further, our research has shown that "soft" issues have been very influential in shaping the motive and the subsequent decision to acquire or sell. It should, however, not be forgotten that synergistic effects through technical fit or practical functionality are also very influential. This is most clearly seen in the case of International corp.-Bioteknik AB and Abigo-DHC. For example these relationships illustrated research and product complemantarity, potential for further development, and the efficiency of cooperation. Consequently, putting both soft and hard synergies in practice is actually what the pre-M&A relationship *is* doing. Finally, this argumentation is also strengthened by the Wilh.Sonesson-Bioglan case, where no pre-M&A relationship existed. The case-analysis concluded that lack of insight into the potential hard and soft synergies, were the reason why the integration later failed. The pre-M&A relationship can thus be seen as an analysis of the softer issues and technical fit.

7.2.2 Before the deal is signed

In the academic literature, the need and idea of an acquisition comes before search and screening, where organisational and strategic fit is often analysed.

However, in the cases of Abigo-DHC and Active-Nederman, it was the selling firm that had a need. This need was not present when the relationship was initiated. When the need arose for the selling firm, the acquiring part had realised the organisational and strategic fit as a result of the pre-M&A relationship. In this way, the pre-M&A relationship visualised a window-of-opportunity for the acquiring firm. Thus, at that moment the motive was formed due to knowledge gained. Even though a pre-M&A did not exist, this is similar to the case of Wilh.Sonesson-Bioglan, where the selling firm also triggered the opportunity for the acquiring firm, which did not have a need.

Finally, in the case of International corp.-Bioteknik AB , need and motive were present at both firms before the pre-M&A relationship was initiated. However, similarly to the other cases, the pre-M&A relationship visualised the technical and organisational fit, such as corporate culture, management style and employee capability as well.

Our cases further highlight that a previous relationship can potentially avoid common problems occurring before the deal is signed. To start with, a fragmented insight in the process (see page 24), which can create problems, has in all cases with previous relationship been avoided. We believe this is due to the knowledge gained in advance as a result of the social capital. Our cases have shown that the stronger social capital, the less need of outside consultants and a large number of individuals involved in the M&A process. This is seen in for example Active-Nederman, as compared to Wilh.Sonesson-Bioglan. Where no social capital existed consultants handled this. However, it is crucial to point out that this might also be because these cases were rather small. Thus, from this study it is not possible to conclude which role the pre-M&A relationship had in this particular matter.

The negotiations were further characterised by openness, in those cases where a pre-M&A relationship existed. The cases indicate that a pre-M&A relationship lead to an understanding of each other's expectations and intentions. Hence, this leads to openness during negotiations, which facilitates discussions around potentially conflicting views. Consequently, knowledge and open communication are likely to diminish the likelihood of a deteriorating effect on trust in a later stage, as misinterpretations are less likely to have occurred. The negotiations were also shortened as a result of this openness. These benefits of social capital can be seen in all cases where a pre-M&A relationship existed. In the Wilh.Sonesson-Bioglan case, the lack of a pre-M&A relationship highlights the lack of insight into synergistic potential, discussed above. Lack of open communication, where such issues could have been discussed and realised, negatively influenced the subsequent M&A process. Openness, honesty and belief in the other part could hence have counter-balanced negative effects. However, openness is precisely one of the benefits of social capital. The atmosphere for open communication is hard to achieve without a pre-M&A relationship.

7.2.3 The post-agreement stage: facilitating the process

The academic literature has emphasised the importance of integration in making M&A work. This can easily be misinterpreted to mean that full integration is always desirable. However, our cases have shown that this must not necessarily be the case. Integration, is in fact everything from interacting as two separate units, to merging into a single new unit (see page 33). It can be hypothesised that in some instances, full integration is a way of controlling an uncertain situation. Where relational social capital exists, which can be developed through a pre-M&A relationship, this may not be necessary. The trust present counter-balanced the need for control. Maybe this is instead why a high degree of autonomy is given to DHC, in the Abigo-DHC case. DHC operates as a sister-firm to Abigo, rather than as a subsidiary. This might also contribute to why International corp.-Bioteknik AB, where geographical and cultural differences are larger, aim for full integration. However, the motive of technical complementarity is also why full integration is preferred in this particular case, at least in the R&D department. This leads us to reflect over the actual need of integration, specifically when the M&A follows as a natural step of the previous relationship. In the case of Abigo-DHC and Active-Nederman, we have seen that the two firms more or less continued working as they did before the M&A. The M&A can thus be argued to simply be a formal decision, without large practical implications. This finding is in line with Andersson *et al's* (1998) conclusions.

Regardless of the level or need of integration, it is clear that an atmosphere that supports transfer of strategic capabilities and cooperation is vital in every M&A situation. To achieve this, Haspeslagh and Jemison (1991) argue for an essential role of a cause-effect understanding of the benefits of M&A. We believe that a pre-M&A relationship can provide this. Insight in future potential and enhanced competitive advantage made possible by the social capital created discussed earlier *is* such understanding according to us. Interestingly, in International corp.-Bioteknik AB , where the network density was low, the employees nevertheless indirectly gained this understanding. This was mainly due to Denise's unconscious role as opinion leader at Bioteknik AB. As such, employees looked up and listened to her. Judging from her reactions and attitude, employees then formed their understanding which made them positive towards the deal. This is an interesting finding since it could have implications for the M&A process. If it is possible to identify opinion leaders in both firms and make them realise the potential value and gains of the M&A, they in turn could affect the attitude of the large parts of the firm. In such cases, cause-effect understanding does not need to be corporation-wide to have an impact. However, opinion leaders can also pose a risk. If they are negative to the M&A, they can equally affect a large part of the employees. The negative atmosphere can in such case be hard to eradicate.

Reciprocal organisational understanding is also argued to be important for the achievement of a positive and functional atmosphere (Haspeslagh and Jemison 1991, see page 29). Again, in cases with a pre-M&A relationship, we see that social capital created during the pre-M&A relationship has given this before the deal was initiated. In the International corp.-Bioteknik AB case this was gained in a neutral environment. This meant that the judgement of the other part was less guarded and more open-minded, which we believe to be important in this case. However, in Active-Nederman and Abigo-DHC, reciprocal organisational understanding was also achieved, but in the firm environment. The natural setting in those cases was instead the fact that there were no motives to merge present during the pre-M&A relationship. In this aspect, relational social capital, where dyadic and generalised trust as well as norms seems to be important, enabled reciprocal organisational understanding. Reciprocal organisational understanding of course also contributes to, or is a prerequisite to, the organisational-human potential discussed earlier.

A willingness to work together is found in all cases and contributes to the atmosphere of capability transfer. However, we do not ascribe the previous relationship nor the social capital created in it much role here. Contrary, our cases indicate a role of both firm's motives in creating this willingness. This is strengthened by the fact that the willingness also existed in the Wilh.Sonesson-Bioglan case without pre-M&A cooperation.

We have seen that the relationships in their totality have critically influenced the motives in these cases. Social capital was, in this respect, important as it enabled the evaluation of the potential organisational and human issues, otherwise often forgotten but seen as vital when actually faced by them. In turn both the motives and social capital affected the atmosphere during and after the M&A.

7.2.4 The post-agreement stage: avoiding problems

In our cases, we have seen indications that the motive and need in the acquisitions played a primary role in diminishing the occurrence of value destruction. The motives and needs in both firms have clearly shaped the basic attitude of employees and also influenced management. This is because the motive has indicated what to expect in later stages and revealed that no threatening actions are likely to be undertaken. Employees have mainly based their expectations on indirect contact with the other firm. However, for management, their expectations have been influenced by what they have actually experienced in the previous relationship. The social capital and resilient trust created as a result of successful pre-M&A cooperation have made them confident that their expectations are to be fulfilled. However, looking at it from another point of view, putting too much faith in the other party as a result of the social capital could prove dangerous. Reality and conditions might change, thus making changes necessary. Erosion of trust can then be the result. However, this is not something we have observed in our research.

Leadership vacuum (see page 32) is another commonly occurring problem in the M&A process. In our cases this has not been a problem. However, this is rather a result of personal business approach and management philosophy, than an effect of the pre-M&A relationship. The leadership approaches in these cases seem to have positively influenced the M&A processes.

In no cases, has management seen a need for, or attempted, cultural integration, neither with regards to corporate nor national culture. The only possible exception would be that Abigo has tried to transfer the long-term business approach to DHC. The cultural approach used by all firms is thus what Nahavandi and Malekzadeh (1988) would term "integration" (see page 33). In our cases, this seems so far to be a good decision. It looks like the previous relationship has enabled an analysis and assessment of each other's cultures. Further, it seems like the cultures were perceived as rather similar from the beginning. In some instances cultures were even adapted to each other before the acquisition occurred. Taken together, this took the edge off the issue of cultural differences. Instead, the signs can be interpreted as cultural differences being appreciated and being seen as necessary for running an international company. However, it is important to point out that other studies have shown that cultural negligence is very dangerous in M&A's. It has for example been illustrated that if cultures are perceived as similar, negligence can lead to major problems (Jönsson 2003). International M&As in some instances therefore also have a larger chance of succeeding with cultural integration (Larsson and Lubatkin). Thus, a previous relationship and a feeling of already knowing each other's cultures could thus prove risky.

A common reason for acculturation problems is that the acquired firm is seldom given enough autonomy. However, in all cases, the acquired companies were actually given high autonomy. This could be another reason contributing to the lack of cultural clashes. In the International corp. -Bioteknik AB case, we have not yet seen the end of the M&A process and the attempts of integration. Therefore, clashes may occur later, when integration becomes more obvious. As discussed earlier, the fact that Denise, who is responsible for much of the positive attitude and has transferred this, is leaving might actually lead to problems. Can the positive atmosphere and cooperative spirit be sustained without her? If not, hostility is likely to result in cultural clashes.

Social control has been argued in the literature by, for example, Larsson and Lubatkin (2001), to have the capacity to effectively counterbalance problems in the cultural integration and the M&A process in general. In Abigo-DHC and Active-Nederman, social control in the form of informal communication and joint socialisation has indeed proven efficient. In these cases, the fact that they knew each other made these aspects self-evident and maybe not initiated because there was an indirect motive of social control. Nonetheless, that is what they did. In the International corp.-Bioteknik AB case however, the pre-M&A relation was not as personal and the relational social capital not as prominent. Neither was the social capital created as wide and deep. However, social control was viewed as important which is why, for example, task-forces and social events were arranged. Where there is a personal pre-M&A relationship and strong relational social capital our findings points to social control occurring unconsciously and naturally, whereas otherwise it is a conscious aim. The fact that social control is not a conscious aim if relational social capital exists might however turn out to be risky. If neglected management loses an effective control mechanism much-needed in the M&A process.

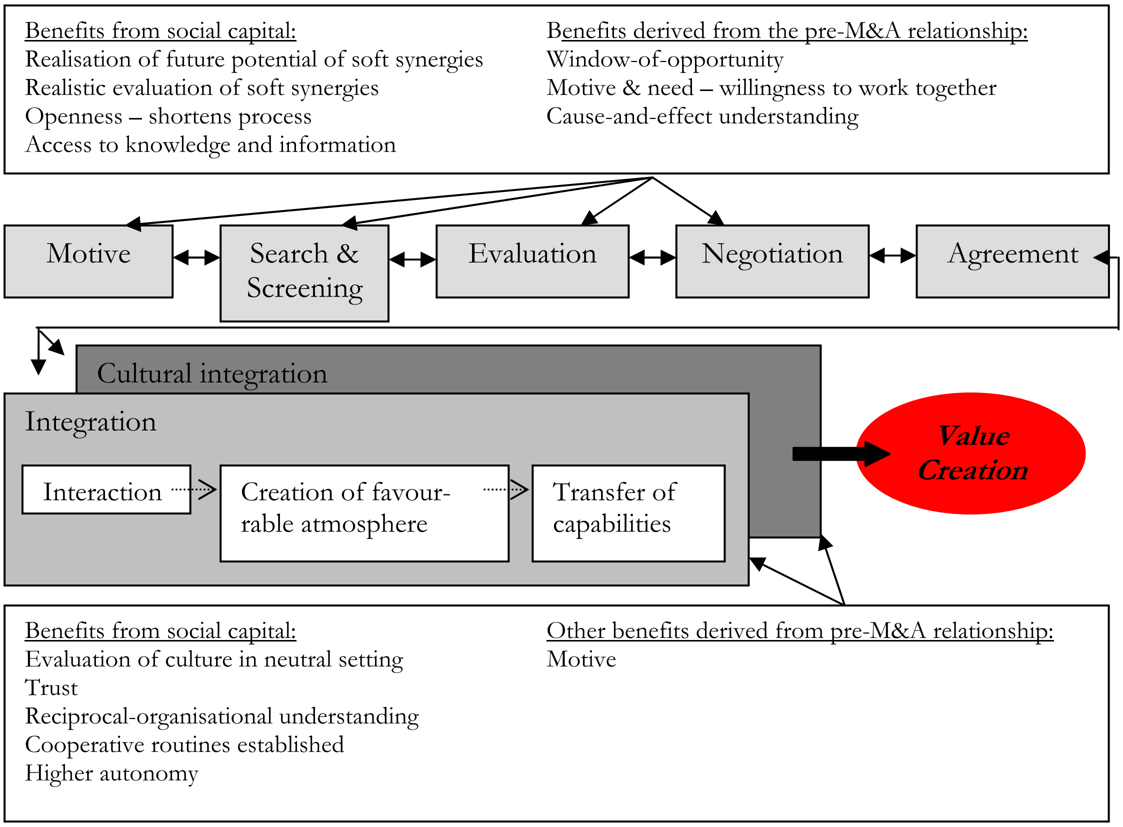
Social control in the form of communication proved effective in the Active-Nederman case. The messages transmitted to employees were carefully prepared to be consistent and the former owner had "planted" the decision. The previous relationship played a role here, as management thought they knew how employees would react and formed the communication thereafter. Yet again however, it could have gone wrong. Human behaviour and reactions are difficult to predict even if a previous relationship exists. Employees could have felt, for example, too controlled and steered, resulting in hostility. They may also feel forced to act after a certain standard and therefore experience stress, leading to value destruction. It might also negatively affect innovative capacity which would be especially important for the Bt industry.

7.2.5 Final comparison

Conclusively, the main difference identified between the cases with and without pre-M&A relationship, is that without a pre-M&A relationship evaluation and knowledge about potential soft and hard synergies are harder to achieve. This later posed a problem for Wilh.Sonesson-Bioglan, as explained. Further, without social capital open communication was hard to achieve.

Going back to our initial understanding of the benefits and risk of social capital in the M&A process, the above findings are summarised in the model previously used (compare to figure 4), illustrated below.

Figure 6: *Benefits in the M&A process derived from the pre-M&A relationship*



Note: Risks illustrated in boxes with broken lines, benefits are underlined. The figure does not explain interrelationships between risks and benefits.

Source: Lindau-Jonsson and Persson (2003)

Interestingly, the role of a pre-M&A relationship in the M&A process does not seem to differ between industries. Reasons for differences were instead factors such as aim of the pre-M&A relationship, time, personality, motive, and circumstances. This clearly strengthens the analytical generalisation of our research.

8 DISCUSSION

It is now time to reflect over the actual outcome of our research and discuss it in relation to our initial understanding, i.e. why some things did not turn out as expected. Further, theoretical and practical contributions will be discussed and presented.

The results point to a role of pre-M&A relationships and social capital in the M&A process. However, we initially thought effects would be most noticeable in the integration phase after an agreement had been reached. As it turned out, the effects of pre-M&A relationship and social capital played a much larger role in the first phase. The reasons seem to be several. First, the literature has ascribed the integration a key role in making M&A work. This coloured the initial perception. Secondly, the motive behind the M&A is vital for the whole M&A process. We previously did not ascribe this large influence. However, as it turned out, the pre-M&A relationships and the circumstances formed the motive. This in turn also affected the need and view of integration. Important to point out is that the benefits and roles social capital had in the early phase affected strategy and approaches after the deal was signed. An earlier and functional cooperation might reduce the need of, and motivation for, integration. If there is already an effective work routine why change it? This becomes especially clear in the Abigo-DHC case. Thus the pre-M&A relationship has been influential in both phases, however the first phase stands out in that we had not attributed it much importance before conducting the study.

As mentioned, the motive had a large influence in the whole M&A process. The most remarkable aspect is how it actually affected employee's attitudes, expectations and satisfaction after the deal was signed. This implies that when planning and implementing integration strategies, attention must be paid to the possible repercussions of the motive. The consequence of the motive must be thoroughly explained. If the motive is positive this should be fully utilised to create a positive attitude and calm atmosphere in the firms, which is important for an effective M&A process. A deeper investigation of the motives and their influence on the M&A process and its outcome, would thus be an interesting future direction.

In our research, the motives' prominent influence could be due to the fact that cases were special. In some cases, the circumstances were such that the announcement could not have been received in any other way. The alternative was death for the company or at least great uncertainty. There was thus a need of being acquired. This points to the importance of not only considering the M&A process from the acquirer's point of view. The balance of power is not always evident and it might just as well be the acquired firm's motive that proves to be most influential.

Circumstances surrounding cases was also a factor not initially thought of, that turned out very influential. As a matter of fact, circumstances have in some cases created a need for the selling firm. The pre-M&A relationship in turn visualised the opportunities created by the circumstances, leading to motive for the acquiring firm. These facts further emphasise how being part of a network and investing in business relationships could benefit the firm. It also reveals how unpredictable business can be and that in reality, business is not always guided by rationality. Obviously, the previous relationship did not create these circumstances. However had the relationship not been there, these circumstances would not have been detected by the involved firms. One potential exception from this is the Active-Nederman case, where it is possible that the owner of Nederman would not have sold the firm if a relationship did not exist. Within the relationship the owner found a successor he trusted and felt comfortable with. In this case, it can hence be argued that the relationship to a certain extent formed the opportunity.

Our initial thoughts regarding the effects of social capital in the M&A process, pointed out potential risks. Even though probable risks were identified as a result of the empirical findings, none of these were actually detected in reality. Without further investigation, this is hard to explain. However, some potential explanations are suggested. To start, due to the limited integration in most cases, conditions for cooperation did not change. Secondly, the transferability of social capital found could mean that no hostility arose as an effect of the limited scope of the relationships. Finally, the realistic view of the relationship limited over-investment, lockage and that overly high expectations were formed.

One can question if relations are more or less important in small- versus large-scale M&As. It could be argued that relationships are given more attention and weight in smaller M&As, as firms do not need to externally justify their decisions to the same extent. Additionally, an informal atmosphere might be more easily be achieved. However, it could be equally argued that the importance of relationship and social capital is even bigger in larger, more complex, and uncertain M&As. It is likely that the need for social capital and social control in such cases is even larger. Further, it might also be the case that business is ultimately personal and that formal processes of, for example, due diligence could be viewed as being external justification of internal decisions to a certain extent.

8.1.1 Theoretical contributions

As a result of the empirical study we have also reflected upon the theoretical concepts presented in this thesis. The literature review together with the case studies and analysis has led us to question the way in which sources of social capital are presented. The framework used speaks about four sources of social capital (se page 43). However, what also feels like an important source is the commitment, economic and emotional, to the relationship. Commitment is an aspect emphasised in the Uppsala process thinking, which indeed seems to be important. It could be argued that belief and motivation together is commitment, but we feel commitment is crucial enough to emphasis. We would therefore like to complement sources of social capital with commitment. Additionally, the study has indicated that trust must not only be the result of a social interaction. In the Abigo-DHC case we observed that trust for Abigo was formed, not only from the problem-free relation, but in fact also on their knowledge and appreciation of Abigo's products. It could thus be proposed that sources of social capital need not involve social interactions or human contact. Trust is still trust, it is not dependent on its source.

The transferability of relational social capital, in the form of a positive attitude and confidence is also an interesting finding. Confidence has been transferred via indirect links when network density was low. As discussed, this is a phenomena occurring via key persons or so-called opinion leaders. However, findings also indicated that deeper feelings, such as trust, did not have the same propensity to diffuse via top management. Indirect transfer is an aspect that

Nahapiet and Ghoshal (1998) have not considered in their framework. Hence also an interesting angle for future research to consider.

Our findings indicate that knowledge gained during a pre-M&A relationship is important for a smooth and effective M&A process. Hence, it could potentially be argued that absence of such knowledge might affect the processes negatively. This would then be similar to what is argued to be the problem facing firms that go international. Thus, in M&As such knowledge could be gained by committing to a relationship. This will enable companies to better evaluate future risks and opportunities in the form of both soft and hard synergies. As seen, this can actually trigger a motive for an acquisition later. Hence the initial commitment to the relationship and the knowledge gained can lead to a later M&A. Thus these findings conform to the Uppsala process thinking (Johanson and Vahlne 1977). Maybe our findings indicate the Uppsala model can be applied to other forms of firm-development, not only internationalisation, as the same obstacles and issues appear to be important for progress, as indicated also by Andersson *et al* (1997).

Another finding with similar theoretical implications is that International corp. and Bioteknik AB were embedded in the same network before they initiated the research experiment. This enabled people from both companies to access information and form an opinion of each other. The Uppsala process model (Andersson *et al* 1997) predicts that such shared embeddedness is likely to assist in a merger situation, especially the integration process. Following our findings, we would also like to emphasise the importance of considering potential benefits of shared embeddedness already in the first phase. The integration process is not finished in this case, thus it would have been interesting to follow its development. For example, the integration of sales forces might run smoother as a result of their shared customer base. An area of continuation would be to look more closely at the role of pre-M&A shared embeddedness in the M&A process.

Finally, in our opinion much focus, especially in media, has been put on mega-mergers and their problems. We have a feeling also that the literature has been steered by this and common problems experienced in these specific situations. Small scale M&As seem to be forgotten. Our findings indicate issues are not always of the same character in such cases. First, media gives the picture that

M&As often aim to reduce cost and increase share-holder value. However, our relatively small cases have not dealt at all with such aspects. None of the involved firms or individuals have even mentioned or hinted that these issues were the main considerations. Instead, true development through growth, synergies, and survival seem to be the drivers. Secondly, it might be the case of merger-mania among managers of large multinational corporations. It is fashionable to merge. In small cases, it might instead be a reality-based need and perceived potential for future value creation that lies behind M&A activity, as explained above. Thirdly, the personal level of business has been crucial in all cases in this study. All involved have looked for some type of personal match, whether it has been on a friendly level or on the practical level. In large mergers and firms this might not be at all possible. Then, in larger M&As human issues are more easily forgotten. Further, management in mega firms are likely to be more detached from both the rest of the firm and the reality that an M&A will actually mean for employees. This is not the case in smaller privately owned firms.

9 CONCLUSIONS

This chapter will identify and highlight the main conclusions of this study. In doing so, we will answer the main research problem:

What is the role of pre-M&A relationship in the M&A process?

The evaluation of future potential before entering an M&A agreement often includes financial, practical, and technical synergies. Further, these evaluations can only be based on current and historic information and events, hence making future potential hard to foresee. However, people components are considered to be of crucial strategic importance for firms and also a potential source of value destruction within the M&A process. As such they also predict a firm's future potential. Interestingly, the most significant role of pre-M&A relationship in the M&A process is its *ability to reveal and identify soft synergies* before the M&A process is initiated. Findings show that the social capital created reveals synergies in the form of corporate culture, decision-making processes, management philosophies, and work-routines. They could further be accurately evaluated in real-life situations as they were put in practice during the relationship. This can hence increase the value of the deal and avoid common pitfalls in the M&A process.

It was found that matching personal chemistry and connection could be evaluated instantaneously. However to reveal true soft synergies, a pre-M&A relationship was necessary.

The knowledge gained through the social capital created, but also from the relationship in its totality, led to an understanding of each other's expectations and intentions, as well as the valuable insight into synergies. This contributed to an *atmosphere of open communication* during the whole M&A process, which in turn *diminished the likelihood of a deteriorating effect on trust* in a later stage. Further, open communication was especially beneficial in evaluation and negotiation. This has substantially *shortened the M&A process*. However, the insight has also shortened the processes necessary to establish functional *cooperative routines* after the deal is signed. Usually, there is a slow-down period after the M&A because such routines do not function. However, if a relationship precedes the deal these are *already in practice*.

Moving on from previous academic work, which has indicated that *acquisition behaviour could be organic in nature* (Andersson *et al* 1997) when previous relationship exist, we concluded that this indeed is true. Where a pre-M&A relationship existed, the merger became like a formal decision, which did not change the cooperation extensively. However, we argue that this is not only due to the common embeddedness. The pre-M&A relationship and *the social capital created* (knowledge, organisational and cultural understanding, and appreciation) has lessened the need for and thus affected motive and strategies applied in the cultural and practical integration. *Where social capital is present integration thus becomes a smaller issue*. This also very well coincides with and strengthens our initial thoughts (section 5.1.7); that cultural evaluation in a neutral setting such as a pre-M&A relationship, is likely to reduce the cultural stress and lead employees to not be afraid of the other part's culture. This in turn was argued to result in the *cultural integration process starting at acculturation*. The strategy chosen for cultural integration in our cases was what Nahavandi and Malekzadeh (1988) term "integration", thus further explaining why integration did not become a major issue for this thesis.

This study indicates that some forms of *social capital are indirectly transferable* via opinion leader and even to some extent via non-social connections. This is thus challenging Nahapiet and Ghoshal's (1998) view that network-configuration determines the extent of movement of information and knowledge between firms. This is also contradicting our own initial belief that a top-management relationship could create hostility in the firms (section 5.1.7).

Knowledge gained as a result of the pre-M&A relationship and the social capital created *reduces the risk perceived*. The study thus gives support to the Uppsala process model (Johanson and Vahlne 1977).

There has been an academic discussion on whether the best approach to integration is to find a "culturally compatible partner" or to manage cultural differences. The results of this study, contradictory to our first belief, indicate the *best approach is to find a culturally compatible partner*. Our findings are thus in line with Cartwright and Cooper (1993).

Relational social capital creates atmosphere of open communication. In the M&A process this led to a *higher degree of autonomy* for the acquired unit. This, in turn is likely to diminish the occurrence of value destruction.

The pre-M&A social relations *visualised opportunities* for both the selling and the acquiring firm.

The study also led to conclusions outside the main question, as it turned out that other factors were significantly affecting the M&A process. In our cases, most prominent was the influence of the *motive*. Hostile and negative employee reactions and attitudes were effectively avoided as a result of the motive. Instead, a *willingness to work together* was formed. To clarify, this was due to the fact that the motives of the firms meant no threat or negative consequences for the employees. Rather, it resulted in feelings such as relief and increased security. In turn, this contributes to a *favourable atmosphere for capability transfer, diminishing the occurrence of value destruction*. Where the previous relationship develops into dependency, this *dependency is a decisive motivating factor for continuing the relationship* and cooperation. The dependency also contributes to the motive.

Circumstances played a decisive role in all cases. This illustrates how irrational and random business can be. However, it also illustrates how *important networks* and personal contacts really are. Without these some opportunities pass by without notice.

9.1.1 Final propositions

Finally, we wish to highlight the most interesting areas for future research by following propositions:

A pre-M&A relationship…

"visualises opportunities for M&As"

"reveals, identifies and puts soft synergies in practice before the M&A process is initiated"

"contributes to an atmosphere of open communication, which diminishes the likelihood of a deteriorating effect on trust in a later stage as well as shortens the first phase"

"shortens the processes necessary to establish functional cooperative routines after the deal is signed, as they are already in practice"

"leads to a higher degree of autonomy preferred for acquired units"

"means the cultural integration process can start at acculturation"

"reduces perceived risk"

The M&A motive can be utilised to…

"increase the willingness of people to work together, thereby contributing to a favourable atmosphere of capability transfer, diminishing the occurrence of value destruction"

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APPENDIX A: INTERVIEW GUIDE

These questions have been used as a guideline and base to steer interviews and discussions.

Presentation/Bakgrund:

- Namn, position, tidigare anställning, tid på företaget, ansvar, delaktighet i fusion/förvärv, etc

Relationen innan:

Hade företgen någon relation till/samarbete innan förvärvet? Kan du i så fall beskriva relationen, från det att relationen uppstod tills det att tanken att förvärva uppkom?

- Motiv
- Typ (formell, informell, personlig)
- Tidsaspekt (sedan hur långt tillbaka)
- Mellan vilka på företagen (ledning eller andra avdelningar)
- Hur ofta och på vilket sätt (business vs. Fritid, kommunikation, socialisering, utbyte av kunskap, användas för olika saker)

Hur har relationen utvecklats med tiden?

- Fördjupats (Utbyte oftare, träffats oftare)
- Ökat i omfattning (Fler och fler från företagen involverade Fler avd.)
- Ökat i förtroende? (även typ av förtroende)

Vad tror Du relationen har medfört, förutom det som avsågs

- Lärande (samarbete, kommunikation, att utbyta erfarenheter och kunskap)
- Förståelse för varandra (kultur, normer, myter, arbetssätt, system, management)
- Språkförståelse ändrats med tiden (svårigheter att förstå varandra)
- Anpassar sig praktiskt till varandra (resurser, tidsscheman, processer)
- Förtroende

Uppkom det några problem i relationen under denna tid och i så fall hur löstes dessa?

- Varför uppkom de
- Lärdomar?

Motiv:
Vilket var motivet bakom förvärvet

- Företagskultur

Kom idén om ett förvärv som ett resultat av er kännedom av företaget eller fick ni kännedom om företaget efter ett beslut att utvidga verksamheten?

Påverkades motivet av er kännedom om företaget?

Sökte det förvärvade företaget efter en förvärvspartner?
Varför?

Sökande & Screening:
Vilka tror Du är fördelarna/nackdelarna med att bli förvärvade av ett företag man redan känner till/har en relation med? Alt. Ett företag som man inte tidigare har haft någon kontakt med?

Alt. om inget förhållande fanns innan, hur kom ni fram till valet av detta företag?

- Kriterier
- Rekommendation från andra
- Tid och resurser spenderade på sökandet
- Första bästa vs. Lång och noggrann process

Letade ni efter alternativa företag även fast ni kände till den förvärvade partnern?

- Varför, varför inte
- Är det inte möjligt att det fanns ett ännu bättre alternativ

Vilka är fördelarna/nackdelarna du ser med att förvärva ett företag man redan känner till/har en relation med?

Utvärdering:
Tror du att den tidigare relationen på något sätt påverkat utvärderingen?

- Finansiell värdering av relationen
- Risk
- Värdeskapande

Såg ni några risker med att förvärva ett företag ni redan har en relation till?

- På vilket sätt, varför, varför inte

Förändrades förutsättningarna för relationen av uppköp och i så fall hur?

- Vägdes detta in i riskbedömningen
- Negativt el positivt

Framkom negativ information om det företag som skulle förvärvas och hur påverkade detta i så fall inställningen om att förvärva företaget?

- Varför, varför inte

Förhandling:
Hur såg förhandlings-processen ut i korthet?

- Avspeglade besluten hur det förvärvade företgaet bedriver sin verksamhet eller togs hänsyn till hur det andra företaget bedriver sin verksamhet
- Maktbalansen
- Påverkade relationen förhandlingen (positivt genom ”utnyttjning” av kännedomen eller ”begränsade” relationen förhandlings området)
- Påverkades relationen av förhandligen

Uppkom det några betydande problem/meningsskiljaktligheter under förhandlingen och i så fall hur hanterades dessa?

Var det bara personer som varit involverade i den tidigare relationen som hade hand om förvärvs-processen till och med förhandlingarna?

Integrationen:
Hur har kommunikationen till de anställda på företagen sett ut ang. förvärvet?

- Har ledningen varit öppen med eller sluten under processen innan och under förhandlingarna, visste alla på Bioteknik AB att något var på gång
- Löften
- ...som logisk följd av relationen

Vilken syn har ledningen haft på behov och genomförnde av integration av företage? Finns det någon strategi?

Kan du praktiskt beskriva hur integrationen har sett ut?

- Vilka delar av företagen har integrerats (vilka avdelningar/personer har kontakt/samarbetar)
- Vilken är synen på behovet av integration (även ”mjukare” aspekter, samarbetsvilja, överföring av kunskap)
- Vilka är målen med integrationen (typ av kunskap som överförs?)
- Resurser avsatt (tid, pengar, management, anställda, projektgrupp)
- Symboliska handlingar Byta namn, administrations system, löner och förmånssystem samma Ledningsbyte
- Rationaliseringar
- Varför

Tror du att den tidigare relationen påverkat integrationen? (Delar som redan var gjorda?)

Finns det även strategier för att kulturellt integrera de två företagen?

- Hur stor vikt har lagts på kulturell integration
- Fanns olika företags kulturer, hur har det i så fall påverkat er verksamhet och integrationen
- Har olika nationella kulturer påverkat integration
- Kulturella problem? Företags/Nationella

- Har den tidigare relationen givit företagen en kulturell förståelse av varandra
- Tror Du denna kulturella förståelse vägdes in i beslutet att förvärva företaget

Kan du ge något konkret exempel på kulturella motsättningar som uppstått?

Hur mottogs beslutet om förvärvet av de anställda på de båda företagen?

- Reaktioner
- Stress och osäkerhet

Om negativa reaktioner uppstöd hur behandlades detta, vilka åtgärder togs och vilka var målen med dessa?

- Hur försökte ledningen få de anställda positivt inställda till och förstå fördelarna med förvärvet (på båda företagen)
- Socialisering (hur ofta, var, varför, varför inte)
- Kommunikation (hur ofta, vilket sätt, varför, varför inte, vilket språk?)
- Mänskliga aspekten (stress, osäkerhet, fientligt inställd)
- Identifiera sig, ett företag, ej två (om detta är avsikten)

Vad har gått smidigast under integrations processen?

Vilka har det största problemen under integrationen som helhet varit?

- Varför
- Hur löste ni dem

Uppstod oförutsedda situationer som förändrade processen, strategin eller synen på denna?

Idag:

Har förvärvet levt upp till era förväntningar, har fördelarna blivit vad ni trodde?
Hur lång tid tog det innan ni kunde se denna förändring?

- Avslutad (lyckad?) Definition av lyckad integration (aktiepris, patent, trivsel)
- Hur ser samarbetet ut idag

- Utbyter de olika delarna kunskap med varandra, lär de sig av varandras erfarenheter
- Innovativ kapacitet
- Hur mycket anpassar sig de anställda på de båda företagen till varandra
- Fortfarande psykologiska och organisatoriska aspekter (stress etc.)
- Vilka aspekter jobbar ni vidare med

Finns det idag *en* företags-kultur, eller kan man fortfarande märka två olika kultur? I så fall hur tar de sig uttryck?

- Vi och dom eller bara Vi

Har du lättare att förstå och relatera till andra anställda på det andra företaget idag om du jämför med början av relation?

- Utvecklat gemensamma normer, uttryckssätt, etc
- Gemensamt språk...

I vilken utsträckning har Ni samarbete/relationer till andra företag/forskare/universitet?

Tror du att förtaget har lärt sig något av detta samarbete/dessa relationer som påverkar synen av förvärvs processen och den senare integrationsprocessen?

- Underlättat/Försvårat
- Öppenhet
- Flexibilitet

Har detta samarbete/dessa relationer påverkats av förvärvet?

Hur stor påverkan i allmänhet tror du den tidigare relationen haft på hela processen?

- Har vissa delar gått att hoppa över Eller var vissa aspekter redan etablerade och processer genomförda
- Byggde förvärvet vidare på rutiner etablerade innan beslutet togs eller skappades nya sätt att jobba Förstördes gamla fungerande relationer
- (I retro spekt hade det varit bättre att inte gå ihop)

Hur tror du innovativ kapacitet påverkas av en sammanslagning/förvärv? Relatera till Ert fall?

Dokumentation?
Finns någon dokumentation av någon sort från:
Relationen/sammarbetet innan förvärvet?
Processerna under förhandling, utvärdering, beslut tagna?
Integrationen? (Kommunicationen om beslutet och integrationen till anställda)
Rapportering av process förloppet?
Undersökningar?
Egna anteckningar?

Svenska bioteknik industrin
Hur skulle du karakterisera den svenska bioteknik industrin? Tydliga trender?

Är samarbete, och iså fall vilken typ, vanligt förekommande mellan bioteknik företag i Sverige?

Hur fungerar kluster verksamheten i verkligheten (i motsats till teorin och syftet)?

Hur vanligt är det att detta även sker över lands gränserna?

Tror du motiven bakom ett samarbete och en fusioner/förvärv är desamma inom bioteknik industrin?

Tror du att samma fördelar som i ett nära samarbete kan uppnås i en sammanslagning/förvärv?

Hur vanligt tror du det är att företag som haft nära samarbete sedan fusionerar eller förvärvar varandra? (Både inom Sverige och över lands gränserna)

Hur påverkas detta av kluster verksamhet?

Hur vanligt tror du att det är att företag som haft ett nära samarbete tidigare (exempelvis inom ett kluster) sedan går samman?

- Varför/Varför inte