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**Mergers and Acquisitions in a New Economy**  
An Opportunistic Approach towards Organisational Changes

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## **Abstract**

The overall objective of this thesis is to create a broader understanding of how mergers and acquisition processes are planned and managed by firms operating in the new economy. The purpose is to get a picture of a common pattern of behaviour, including what drives the processes and how the transactions are carried out.

The theoretical approach of the study sees M&As as a process consisting of an idea, decision-making, and integration phase. In addition, it is also suggested that M&As cannot be looked upon as merely internal processes. In order to understand the underlying driving forces, environmental factors must also be taken into consideration.

The empirical data of the thesis is based on case studies in six Swedish companies representing the new economy. Data has mainly been collected by personal interviews with top managers in the companies.

The results are divided into three different themes, describing and explaining the logic behind M&As in the new economy.

- *The Uncertain M&A Process* – the strong uncertainty in the industry results in the process being driven more by mimetic factors than analytic evaluated facts.
- *The Pragmatic M&A Process* – the short-term perspective of both the managers and the stakeholders makes the process more pragmatic than analytic.
- *The Environmental Dependent M&A Process* – the high degree of environmental dependency creates a process that is strongly formed by companies' audience, such as financiers and customers.

**Key words:** mergers, acquisitions, M&A process, new economy, IT companies, motives, decision-making, integration, environmental factors, institutionalisation, uncertainty.

## **Preface**

This thesis has given us a chance to study and explore a subject of recent interest for the business world today. Our working progress has involved many people and we would like to thank them all for sharing their knowledge and experience with us.

First of all we would like to thank Ulf Johansson, management consultant with great experience of mergers and acquisitions in different industries. His ideas and suggestions in our initial discussion have been invaluable for us through the whole thesis process.

Furthermore, we are grateful to the managers at Adera, Cell Network, Framfab, Frontec, PreEra and Nexus-Devenator, who participated in our case studies. Even though all of them had a great lack of time, they took part in interviews and discussions. Without their help, this thesis would have not been possible to complete.

We are of course in great debt to our advisor, Björn Alarik, who has always helped us at short notice when we faced problems. His positive attitude and heavy commitment have given us invaluable inspiration for completing the thesis. Thanks must also be given to Torbjörn Stjernberg and the other participants at the method tutorials during the autumn.

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## INTRODUCTION

*This thesis is built upon the questions of how mergers and acquisitions are managed in the new economy and what factors drive the process. In this chapter, we will present an introduction to the research, including background and an analysis of the problem area, purpose and delimitation of the study. Additionally, we will also outline a brief disposition of the theoretical approach of the thesis.*

### **Background**

Our interest for strategic change within organisations, and especially mergers and acquisitions, has arisen from our course studies during the last year. For instance, in one of the term papers we have written, we have discussed shifts in the frequency of M&As<sup>1</sup>, in connection to different motives and different periods of time.

In business debate today, we could find that the frequency of M&As is sustainably high and M&As seem to be a commonly used strategic tool for companies. It is said that one of three employees will, during the course of their working life, undergo a merger or acquisition (Hubbard, 1999). At the same time, we find from Rydén (1971) that M&As are not a new phenomenon and many of the large firms owe their origin in whole or in part to mergers that occurred long before.

However, as the number of mergers and acquisitions increases, statistics also show that approximately half of the acquisitions did not turn out to be successful. Consequently, many of the accomplished M&A transactions, do not meet their expectations and do not produce expected results. Actually, research shows that M&As rarely result in more positive economic effects than other strategic investments in firms (Rydén, 1971). Hence, there seems to be a paradox situation, where M&As are used as a strategic alternative for creating positive economic effects for the company, but it is hardly ever that the outcomes are in line with the expected benefits.

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<sup>1</sup> M&As = mergers and acquisitions

Parallel to M&A transactions conducted in traditional industries, which often have been subjects for prior research, we can see that M&As becomes more and more frequent in emerging industries. Today, M&As also seem to become a common strategic tool for companies in new lines of business. The question therefore arises, if there are other conditions for these companies to be successful with M&A activities. For instance, if there, for companies in this environment, are new threats and possibilities that will change the conditions for achieving wanted results. Furthermore, if this will result in new drivers and ways of managing the process by these companies.

## **Problem Analysis**

“The new economy”, “the information economy”, “the digital economy”, “the network economy”... The list of different names of the business environment, or economy, that is emerging today could be very long. But, what is really new with this economy?

From literature, it is possible to identify at least three different areas that drive and shape new conditions in business today. These areas are knowledge, globalisation and technology.

According to Blomgren & Kuikka (1998), the new economy is described as *knowledge-intensive*, where the focus has shifted from physical assets to brain capacity. The most valuable asset within knowledge companies is the intellectual capital, which gives the power to the employees. These companies are evaluated according to the intellectual capital rather than physical investments. The major goal within these companies becomes to generate, develop and spread knowledge and innovations. Tapscott (1996) argues that brain rather than muscles will create more of the economy's value and knowledge work becomes the basis of value, revenue and profit. Companies have to add knowledge through the whole value chain. Additionally, Bohlin (1992) states that, besides experience, humbleness and power of initiative, knowledge becomes one of the crucial factors for creating competitive advantage.

Tapscott (1996) further argues that, since knowledge and technology know no boundaries, *globalisation* becomes even more important in the new economy. New economic and political regions and structures will lead to a decline in the importance of national borders and increase the interdependencies among countries. Blomgren & Kuikka (1998) mean that different regions will be more important than national borders. In addition, Kelly (1998) also points out that the new economy is extremely world-wide, meaning that companies are competing in an open market without any national borders. Furthermore, also Blomgren & Kuikka constitute that the key success factor for companies in this economy is, in the end, to act globally.

Finally, Tapscott (1996) points out that the main characteristic of the new economy is *technological changes*. In the traditional economy, information flows were physical. Cash, invoices and face-to-face meetings were the dominating ways of doing business. Today, however, more or less all information is transferred digitally and information becomes reduced to bits stored in computers, racing at the speed of light. In addition, Blomgren & Kuikka (1998) conclude that modern information technologies will become critical strategic tools in the future. Information technology will result in new drivers and possibilities when it comes to doing business in the new economy.

We believe that the characteristics discussed are not new phenomena, which are not highlighted before in business debates. Some of them have been discussed for several years, also in traditional industries. However, in the context of the new economy, they seem to become even more important and the reasons for changed market conditions, which set the rules for companies today. Therefore, the next question is what consequences the changes will have for companies competing in this new environment.

From Downes & Mui (1998), we find that one important implication of the changes is the occurrence of 'killer applications'. Killer applications are new products and services that dramatically change the power balance between the actors of the market. For instance, Blomgren & Kuikka (1998) mean that one of the major differences to the traditional industry is low barriers to entry. Therefore, it is very important, in an early stage, to identify and react to

changes in the market, such as new technologies within services and products. Because of technological development and globalisation, new competitors are born everywhere and in a very short time. The new conditions make new demands on managers, to be extremely future-oriented and innovative. Low barriers to entry give organisations high margins very fast, but can also dramatically change the profit to loss.

In comparison, Shapiro & Varian (1999) state that the industrial economy is populated with oligopolies, where a few large firms dominate the market and where market shares will fall only gradually. In contrast, the new economy is populated by temporary monopolies, which increase the importance of speed and future orientation. Blomgren & Kuikka (1998) and Tapscott (1996) mean that successful companies within this economy must change constantly to be able to stay ahead. New products and services are born and product life cycles are counted in days or weeks rather than years.

From literature, we find that timing and speed have become a business competitive strategy. Time has been a competitive advantage comparable to technological products and services. Time to market, time to volume, time to cash flows will decide who will set the standard and the structure and get access to attractive and strategic market shares.(Blomgren & Kuikka, 1998, Tapscott, 1996).

Furthermore, Shapiro & Varian (1999) mean that the old industrial economy was driven by economies of scale while the new economy is driven by economies of networks. Since new ideas are born continuously, former competitors may become potential partners. Today, companies need partners and alliances in order to get access to technology and market shares. Networks become crucial for reducing risk and time for development, lowering the costs and increasing flexibility. Constant innovation is similar to constant consumption of new ideas, which lead to that organisations are living on the edge of constant chaos. The speed and the time may decide who will be eaten and who will not.

Shapiro & Varian (1999) conclude that the critical success factor lies in the computer network, if we can share the same software and the same files. It becomes very dangerous to fall below the critical mass. Shapiro & Varian call this the network effect, meaning that companies connected to the bigger network will be stronger while companies that are not connected will be weaker. There appears a win-win game for all parties involved. The network economies and network effect make co-operation more important than ever. The success lies in finding the right partners instead of fighting with each other. Consequently, they mean that the competitive strategy for the new economy is to combine different solutions into integrated networks in order to achieve the critical mass of users.

It follows from this discussion that a set of new conditions seems to have arisen, which may affect the business environment and the market conditions for companies. One consequence of the described changes in the business environment is that strategic alliances between firms seem to become more important due to increased importance of networks, speed and timing. Hence, we believe, in the context of these new conditions there may be new reasons for why companies conduct M&As in the new economy and how the process is managed in comparison to traditional industries.

From a theoretical point of view, M&A research can be divided into two basic approaches. The first approach of research sees the outcomes of M&As as results of individuals' actions and behaviour in the company. This approach focuses on the transaction as an internal process where proper planning and integration are stressed. Failures are often explained by managers' inability and lack of knowledge of handling internal issues in the process. Thus, the internal approach is based on the assumptions that companies' conduct changes in response to internal demands. From this point of view, M&As are conducted in order to increase the internal efficiency. (Jemison & Sitkin, 1986)

In addition to this internal approach, other researchers adopt an environmental perspective of what drives M&As. The main assumption of this approach is that organisational transformations often take place in response to environmental demands. Bueno & Bowditch (1989) argued that, although

companies tend to behave and act in response to internal demands, most major organisational changes occur in accordance to the organisations' interplay with its environment. Companies that are acting in a stable and predictable environment are more likely to keep old routines and structures.

Buono & Bowditch (1989) propose that when companies' external environments meet fundamental changes, companies tend to respond by changing their structures. Uncertainties and ambiguities tend to emerge when companies try to understand and respond to new conditions in their environment. Additionally, Meyer & Rowan (1977) argue that companies are open systems that interplay with their environments. They also mean that external forces will influence companies to change their structures.

Hence, according to the characteristics of the new economy, companies seem to be affected by a set of new environmental factors, such as increased momentum in technology changes and increased importance of global networks. With the environmental approach in mind, it is reasonable to suggest that changed conditions may influence the way managers are carrying out M&As.

## **Formulation of the Research Questions**

From the discussion above, we find that, despite the question of how the "new" economy should be titled <sup>2</sup>, the business environment and the market conditions are today rapidly changing. At the same time, we see that strategic alliances between firms, such as M&As, become more and more frequent in companies within the new economy.

As far as we know, prior research has only discussed how the process is managed according to conditions in traditional industries. In the new economy, there seem to be other business conditions, which may affect how the process will be managed. Therefore, we find it relevant, in accordance to an environmental approach of M&As, to investigate if the new business conditions make new demands on how to handle strategic changes like M&As. The

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<sup>2</sup> The concept "new economy" will be used through the thesis when referring to companies operating in the described market situation.

problem of this study could consequently be defined by the following research questions:

- How is the M&A process managed by companies operating in “the new economy”?
- What drives the M&A process and why is it managed in a particular way?

## **Purpose and Delimitation of the Thesis**

The overall objective of this thesis is to create an understanding of how the M&A<sup>3</sup> process is planned and managed by firms within the new economy. Our aim is to get a picture of a common pattern of behaviour, including what drives the process and how it is managed. We will adopt a management perspective of the process in order to understand how decision-makers in the firms view and manage the M&A process. Still, we have no ambitions for coming up with any normative statements of how companies should or should not act.

Since most prior research has only been focusing on M&As in traditional industries, the subjects for our study will be young and technological driven entrepreneurial firms within the new economy. Our ambition is to present a balanced view of how our case companies are managing their M&A processes.

## **Theoretical Approach of the Thesis**

In figure 1 below, we present a schematic illustration of essential concepts of our study and how they are related. The figure makes no demand to be a causal model but should rather be seen as a conceptual scheme. The model serves as a tool for the collection of data and theoretical and empirical analyses.

As shown in the model, we divide the internal M&A process into three different phases. The *idea phase*, which includes the initial idea to merge and the motives behind. The *decision-making phase*, where the idea to merge is evaluated and decision is taken. The *integration phase*, including how managers look upon and plan for integration issues.

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<sup>3</sup> We will make no distinction between mergers and acquisitions and the both words will be used synonymously.

Furthermore, as we proposed in the problem discussion, it is not enough to look upon M&As as an internal process. Instead, in order to understand the transaction one must take into account environmental factors that may influence and restrain the process. Hence, we suggest that *institutionalisation of behaviour*, *environmental pressures* and *environmental dependency* are factors that affect the whole M&A process through the idea, decision-making and integration phase. In the next chapter, we will deepen the discussion about our theoretical approach. We will start by presenting a broad overview of the M&A research field and then separately describe each part of the model proposed.

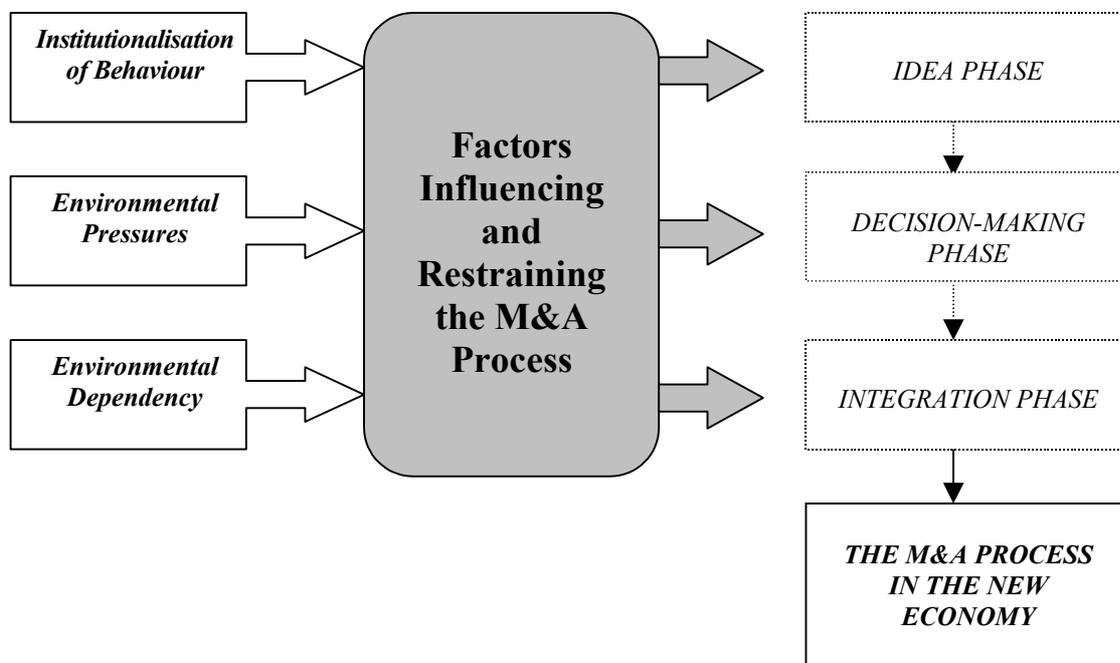


Figure 1. Theoretical Approach of the Thesis

The theoretical discussion will be followed by a combined presentation and analysis of our empirical findings. This part will also be built upon the model presented. For each of the phases, we will point out a specific transaction in each of the case companies, which we will follow through the analysis. Furthermore, each of the three parts includes a comprehensive analysis of what common pattern could be identified from the case companies' way of managing their M&A process. Finally, the last part of the analysis explains why the M&A process has become formed in a certain way. This part does not include any

new empirical data, but we are using findings discussed in previous sections of the analysis. The exception to this is a number of illustrative quotations, which are used to support implications discussed.

In the concluding discussions, we are reflecting back on our purpose by making a comprehensive examination of how our case companies were managing their M&A process in accordance to our research questions. Furthermore, we extract some themes that we think are illustrative for the drivers behind the outline of the M&A process in the new economy.

## **THEORETICAL APPROACH OF THE THESIS**

*In the following chapter, we will explain our theoretical approach. We will begin by discussing the fragmented perspectives in the prior research of M&A and the emergence of a process perspective. Furthermore, we will discuss different ways of managing the M&A process. Finally, different internal and external factors that may influence the process will be presented.*

### **Overview of the M&A Research Field**

#### **Fragmented Perspectives**

From M&A literature, it is possible to distinguish several different schools or fields of research; the strategic, organisational, financial and economic school. Each school of thought addresses its own perspective of M&As, with different methodologies and different objectives. Consequently, the different approaches have divergent theoretical understanding of what accounts for the M&As success and failure. (Larsson, 1989, Haspeslagh & Jemison, 1991, Gaughan, 1991, Bouno & Bowditch, 1989). In order to broadening our understanding of what really drives M&As, we will here briefly examine the different schools.

The *strategic* perspective seems to be well explored by researchers, where the focus is on M&As as a strategy to growth in firms. Barney (1997) and Porter (1980) are examining different business strategies and strategic relatedness of M&As. They discuss different diversification and combination possibilities depending on the strategic position of the specific firm. In addition, Ansoff et al (1971) have conducted studies where acquisition strategies are evaluated through performance measurements and how firms plan and manage M&As. Hence, Haspeslagh & Jemison (1991) distinguish between two subgroups of strategy researches, the acquisition performance group and the acquisition planning group. The first group shares the financial economists' interest in performance and focuses on identifying the success factors for different M&As combinations. The second is more focused on developing strategic analysis concepts to improve the performance.

A second school of thought in the M&A research are the *economic* and *financial* perspectives, which are focused on the explicit economic outcomes of M&As. The economic school highlights production efficiency through economies of scale and scope. The financial school includes accounting motives, stockholder value and gains from tax advantages are explored. Researchers have generally relied on the stock market value to obtain the best estimate of future M&A performance. (Ravenscraft & Scherer 1987, Rydén 1971, Steiner, 1975).

In the *organisational* perspective, researchers focus on the human side of the M&A process, how M&As affect the individuals in the firm. For instance, Risberg (1999) addresses the problem of how various employees interpret objectives, corporate identity and other meanings associated with the post-acquisition process. Additionally, also Buono & Bowditch (1989), investigate the human side and the interrelationship between M&As and the employees. The organisational approach of M&As is also highlighted in the perspective of corporate cultures (Kleppesto, 1993)

From this brief overview of literature, we see that M&A activities have fascinated researchers and practitioners for decades. Traditionally, these seems to have been a clear distinction between the different approaches, each focusing on different aspects. We think this is important to realise since the explanations of why M&As are undertaken and how the processes are managed are driven by the different schools.

### **The Emergence of a Process Perspective**

As discussed, there are different perspectives on M&A activities and research has been more single-voiced than multi-voiced. However, many strategic and organisational researchers combine several approaches in order to decrease the gap between the different perspectives (Haspeslagh & Jemison, 1991, Bouno & Bowditch, 1989). The reason for this is that the intended benefits of M&As are often not realised, which have led both strategic and organisational literature to start emphasising the connection between hard and soft issues. For instance, one of the most famous approaches is Haspeslagh and Jemison's (1991),

*process perspective*, which is different from the traditional view of how M&As are conducted.

The traditional perspective of M&As seems to be based on a neo-classic view of how decisions are taken. The neo-classicists suppose that managers behave rationally and make their decisions on economic efficiency. The rational perspective stems from general strategic research, such as Porter (1980), Ansoff, (1965). The rational approach is built upon a deterministic view, where the world is seen as rational and where reality is concrete. In accordance to the conventional view, Porter and Ansoff suggest a rational model for decision-making in strategy planning. In their models, objectives are clear and facts are gathered and evaluated in an orderly way with explicit purposes. A certain cause would lead to a certain effect since all people will respond in a shared rational way.

In accordance to the neo-classical view, the conventional view sees M&As as a result of a sequential process of rational planning. The transaction is evaluated by quantitative measures and the outcome is determined when the transaction is assured. The M&A justification is articulated in terms of strategic goals and how well the transaction will serve these goals. This view presumes that it is possible to understand and predict the value of the deal already in the planning phase. (Haspeslagh & Jemison, 1991)

The process perspective differs from the conventional view since it considers the M&A transaction as a coherent process where all sequences affect each other and together determine the outcome. In comparison to general strategic theory, we think that the process view is similar to the voluntarism perspective, where the world is seen as subjective and should be experienced. Mintzberg (1979), who supports this view, means that formulations and realisations of strategies are not distinct. Instead, strategies and plans are emerging from a process of continuous learning.

The process view suggests that strategic decisions are not comprehensive rational choices, but outcomes of processes governed by one or several influences. Furthermore, M&As could not be seen as independent on-off deals.

Instead, they should be viewed as means, which will help the company to create value in the end. All the actions and activities through the whole process will determine the outcome. Haspeslagh & Jemison (1991) argue that it is not enough to look upon fragments of the process. One must consider the whole process to be able to understand the different parts. The process perspective emphasises that the acquisition process itself is a factor, in addition to strategic and organisational fit, that affects the outcome.

We have chosen to partly build our theoretical approach upon Haspeslagh & Jemison's (1991) process view. In accordance to our purpose, we are adopting a broad perspective and we find the process view suitable since it considers the whole M&A process itself as a factor determining the outcome. The view will be a supporting tool for understanding how companies are managing their M&A processes in the new economy. For instance, if the case companies are acting in accordance to the process view or the conventional view.

### The Process Perspective

A common way to describe the M&A as a process is to divide it into different phases. In contrast to the conventional view, the process view sees the phases as highly integrated. Haspeslagh & Jemison's (1991) propose four phases; idea, acquisition justification, acquisition integration and results, see figure 2.

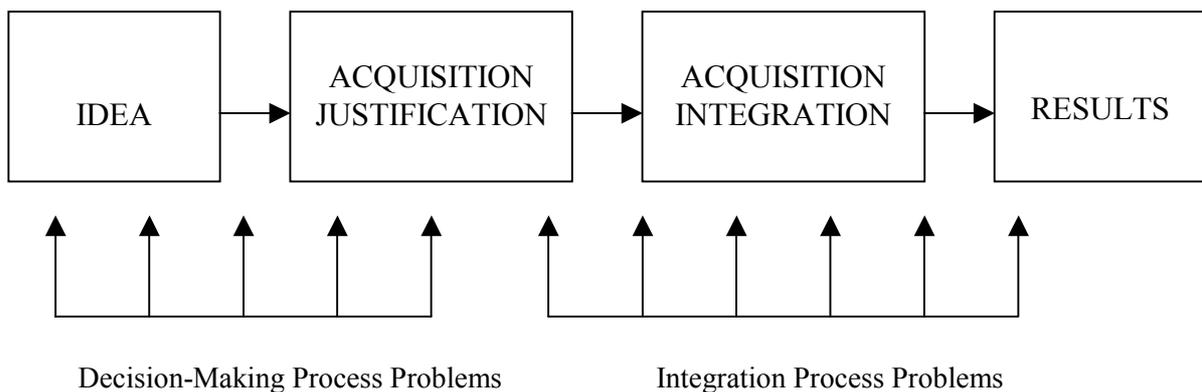


Figure 2. The Process View of Mergers & Acquisitions

Source: Haspeslagh & Jemison (1991), p. 12.

According to Haspeslagh & Jemison (1991), in the idea phase, potential M&As are suggested and suitable partners are evaluated. In this phase, strategic and organisational fit is emphasised even if they only determine the value potential. They mean that most acquisitions are a combination between a formal planning process and opportunism. For instance, if the company has formally identified a “growth gap” or if the acquisition is triggered by an opportunity. Furthermore, in the acquisition justification, the transaction is evaluated and the final decision is made. In this stage companies should not only evaluate the potential outcome, but also plan for how value is to be created. For instance, plan for how integration issues can be carried out. Important to consider is how people from the two organisations can co-operate in order to create value from the transaction. The integration stage is about transfer of strategic capabilities where people from the two organisations learn to work together.

During the different phases in the process, a set of problems appears that need to be carried out before the desired results finally can be achieved. Haspeslagh & Jemison, (1991) argue that the phases are interactive and that they must be considered together. In the next section, when we are explaining the specific phases in our theoretical approach, we will extend the discussion about important issues and problems.

Buono & Bowditch (1989) also propose a process perspective, where they identify different stages in the M&A process. In contrast to Haspeslagh & Jemison (1991), they describe the M&A transaction as not only an internal process. They discuss how ambiguities and uncertainties in the environment will affect the actions in the different phases.

Buono & Bowditch (1989) state that, although companies conduct changes in response to internal demands, most major organisational changes take place in response to environmental demands. When the environment of the companies is relatively stable and predictable, the company is more or likely to keep old routines and structures. On the other hand, when companies face environmental changes they tend to respond by transforming their structures.

Furthermore, Bouno & Bowditch (1989) argue that ambiguities tend to emerge when the organisation tries to understand, make sense of and respond to conditions in their external environment. Ambiguities include changes in technology, market, socio-political and economic variables. Bouno & Bowditch mean that all these uncertainties create a number of ambiguities for managers in terms of deciding on appropriate strategic responses. For instance, how the firm should position itself with respect to its products, services and other industry players.

According to Buono & Bowditch (1989), M&A decisions are influenced by the different ambiguities and uncertainties created by changes in the environmental conditions. Hence, the challenge of M&A activities is to reduce or avoid environmental uncertainty and ambiguities. The larger degree of uncertainty, the greater the tendency to conduct M&As. As the level of environmental uncertainties increase, M&A discussions tend to begin. In many cases, fears arise that unless the firm grows or get access to additional resources, large companies will destroy it, it will be less competitive, or it might even fail. In other cases, M&As are seen as a way of developing new opportunities. Since strategic discussions like M&As are usually conducted at top-management level of the company, most of this uncertainty and ambiguity is focused on the management level.

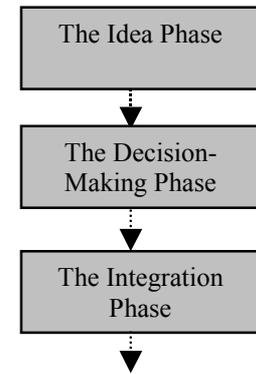
As we see it, Buono & Bowditch (1989) mean that the different ambiguities and uncertainties play a great impact on the M&A process. In contrast, Haspeslagh & Jemison (1991) emphasise internal aspects of the process and do not include environmental influences. In their internal perspective, the focus is on how to create value through the M&A process.

As earlier mentioned, we have adopted Haspeslagh & Jemison's (1991) perspective to be able to understand how our case companies are planning for value creation. For instance, what drives the idea, how decisions are taken and how the companies are planning for integration. However, in accordance to our research question, we find it reasonable to suggest that new market conditions may be one of the main aspects that differ for companies in the new economy, compared to traditional industries. Therefore, we believe that Bouno &

Bowditch (1989) highlight important aspects since they consider influences from the external environment on M&A decisions. This is also the reason for the perspectives included in our theoretical model, where we combine the process view with an environmental approach.

## The M&A Process

Above we have discussed the emergence of a process perspective. In order to understand how the external environment influences companies actions and behaviour, we will later extend the discussion of the environmental perspective. Before this, we will in the following section view M&A activities from an internal perspective. Hence, we will discuss common motives of why companies conduct M&As and how the decision and integration phase can be carried out.



### The Idea Phase

It is important to recognise that each company's approach of conducting M&As is to some extent unique and may be predicted on a number of possible motives (Howell, 1970). The fragmented perspectives of research have resulted in different motives in literature of why companies should conduct M&As. In this section, we will examine motives by discussing them in accordance to the different schools presented in the beginning. The reason for this is to get an overview of different motives in order to understand the drivers behind M&As in the case companies.

The strategic approach describes a variety of ways in which firms can be strategically related. The motives reflect what types of business combinations are chosen. In strategic literature, several different typologies are developed to categorise different types of strategic relationships between firms. The most commonly used is the FTC model, which classifies M&A motives into horizontal integration, vertical integration and conglomerate (Federal Trade Commission, 1973, Lubatkin, 1983). In addition, Howell (1970) divides M&A strategies into three different groups; M&As between unrelated companies,

M&As within the same market with unrelated manufacturing and M&As between companies with related products but in another market.

Another similar typology is proposed by Salter & Weinhold (1979), who make a distinction between unrelated and related acquisitions for diversification. The unrelated includes businesses where the products, markets and functional resources are unrelated to existing corporate activities. Furthermore, they distinguish between related supplementary and related complementary acquisitions, where the former means entering new markets with existing resources and the latter new resources at existing markets.

Larsson (1989) develops a combination of these different typologies in a systematic framework, where he extends the FTC model with the described typologies (Howell, 1970, Salter & Weinhold (1979)). Larsson summarises his ideas in a three-by-two matrix, where he uses the dimensions *same* versus *different* market relation and *same*, *long-linked* or *unrelated* production relation. See figure 3.

		MARKET RELATION	
		Same	Different
PRODUCTION RELATION	Same	<i>Horizontal</i>	<i>Market extension</i>
	Long-linked	<i>Vertical backward</i>	<i>Vertical forward</i>
	Unrelated	<i>Product extension</i>	<i>Conglomerate</i>

*Figure 3. A Systematic Framework for Different Strategic Motives*  
 Source: Larsson (1989), p. 13.

We think it is important to understand the strategic relatedness, since it reflects what other objectives companies want to achieve through M&As. For instance, if companies want to get access to knowledge or enter new markets. Larsson (1989) also argues that the different M&A types make up the degree of relatedness that can be seen as an indicator of the combination potential. He argues that less relatedness results in less available areas of possible synergies. In addition, it is often stated that the degree of strategic fit is crucial for the value that the deal may create for the shareholders (Chatterjee, 1986, Lubatkin, 1983 et al).

Traditionally, motives such as economies of scale and scope, efficiency improvements and cost reductions are common outspoken economic motives for conducting M&As. Gaughan (1991), also argues that different potential synergies are due to what kind of strategic combination is selected. He means that the term *synergy* is more often associated with strategic fit than with economics and finance. Simply stated, synergy refers to the ability of a combination to be more profitable than individual profits of the firms that were combined. The two main types of economic synergies are operational and financial. Operational synergy refers to the efficiency gains that are derived in horizontal and vertical mergers. Financial synergy refers to the possibility that combining two or more companies can lower the cost of capital (Gaughan, 1991, Ravenscraft & Scherer, 1987). Well-known economic motives, such as economies of scale and scope, decreasing cost of capital and risk reduction, seem to be driven by expected realisations of synergies. For instance, as Ravenscraft & Scherer (1987) state, achieving risk-reduction benefits through conglomerate strategies.

In addition to economies of scale and diversification benefits, there are other economic motives for M&As. For instance, increasing market share and market power that results from horizontal integration or various other benefits that result from vertical integration (Gaughan, 1991, Ravenscraft & Scherer, 1987). Horizontal integration comes from monopoly power, the possibility to command higher prices for a company's products and services without fear of losing sales due to competition. Vertical integration comes from the benefits of acquiring a firm closer to the source of supply or to the ultimate consumer.

The discussion of motives is taken further by several different researchers, as they propose alternative managerial motives of M&A. For instance, it is assumed that managers may undertake M&As for different non-articulated motives, such as receiving status and power by pursuing growth and increasing the size of the firm. This is called the empire-building syndrome, which may be motivated by egoistical needs to exercise power and flex the muscles. It can also be a stimulating and exiting game to relieve boredom and to achieve status. (Cartwright & Cooper, 1992, Sudarsanam, 1995, Gaughan, 1991, Barney, 1996)

Additionally, the self-fulfilment motive can also be the source for other reasons that drive M&As. Drivers behind this can be a desire among managers to show underused managerial talents and skills in order to enhance their own credibility and increase self-confidence (Cartwright & Cooper, 1992, Sudarsanam, 1995). Barney (1997) proposes *managerial hubris* as another motive for managers to invest in M&As. Managerial hubris is based on an unrealistic belief that managers can manage the assets of the acquired firm more efficiently than the current management. Finally, Sudarsanam (1995) and Barney (1997) mean that job security and minimising the risk of being acquired are drivers for M&As.

We have here discussed different motives from different perspectives. Firstly, motives driven by business interests and secondly, motives driven by more underlying individual interests. From the overview, there does not seem to be a general agreement in research of what really drives M&As.

### **The Decision-Making Phase**

Haspeslagh & Jemison (1991) identify five different dimensions that are relevant when studying how companies manage the decision-making process. Since the dimensions will serve as a framework for our analysis of the decision-making process in our case companies, we will briefly describe them here. The dimensions are the time horizon of managers, the concept of how to compete, involvement of top-managers, analytical versus political decision-making and consensual versus individualistic decisions.

*Time horizon of managers* means that companies show important differences in time horizon embedded in the decision-making process. For instance, if decisions are made in a long-term or short-term perspective. This is dependent on expectations of strategic decisions, the time the managers have until they are expected to show financial returns of the deal.

The second dimension focuses on *how organisations compete in the market*, if the organisation aims at establishing a dominant market position, or getting fast financial results. In the first, acquiring either scale or market share often seems to be the first ambition. The assumption is that it would bring both needed strengths and economic results in the end. In the second, managers need to frame all investments in terms of financial outcomes and decisions become more dependent on fast financial results. *Involvement of top-managers* emphasises to what extent top-management wants and expects to be involved in the decision-making process. In some companies, several managers are involved in the process, in others very few are participating. This is often due to the size of the firm; in large and more diversified companies top-managers cannot be involved in all details of the process.

*Analytical versus political decision-making* is the degree to which decisions are based on factual business evaluations or political influences. At one end of the spectrum, are companies that have an analytical process and at the other end are those with a political process. In the first, support for the acquisition is based largely on a presentation and discussion of broad range of facts. In the political process, the evaluation is more based on the top-management 's own subjective interpretation of the transaction. The role of formal evaluation is of secondary importance and the decision is based on informal discussions about risks and uncertainties. In this case, political factors take the upper hand over analytical arguments.

Finally, *the consensual versus individualistic* is to which extent the decision-making process depends on a single champion or several individuals in the company. Companies may show differences in the extent to which the responsibility for the transaction rests with a single individual or is collectively shared.

The five dimensions of how companies handle decision-making are summarised in figure 4. A process of short time horizon, result-oriented competition, low involvement of top-management, political decision-making and individualistic decisions, is labelled as a *limited resource allocation style*. A process of long time horizon, capability transferred competition, high involvement of top-management, analytical decision-making and consensual decisions, is labelled as a *robust resource allocation style*.

<u>Factors</u>	<u>Limited</u> ←-----→	<u>Robust</u>
Managerial time horizon	short	long
Concept of competition	results	capabilities
Substantive involvement	low	high
Basis of decision making	political	analytical
Nature of decision-making	singular	consensual

Figure 4. Different Resource Allocation Styles

Source: Haspeslagh & Jemison (1991), p. 76.

Haspeslagh & Jemison observed that the closer a company's behaviour is to the left or limited side in figure 4 above, the more pervasive are the problems proposed below. At the same time, behaviour that corresponds to the right hand side, robust, is much more adaptable to a wide range of challenges appearing in the M&A process. From their research, Haspelagh & Jemison found that companies with a robust resource allocation style needed few adjustments to handle acquisition decision-making effectively, whereas those companies with a "limited" style often had problems.

Haspeslagh & Jemison (1991) argue that the elements described above are only a part of a complex set of factors that determine the way companies manage the decision-making process. Nevertheless, they mean that the elements are closely related to the presence or absence of problems in the decision-making process.

Haspeslagh & Jemison (1991) propose four types of problems that are related to the limited resource allocation style:

- *Fragmented perspectives*, which is the problem when many specialists during the analysis and decision-making phase have different perspectives of the advantage of the deal.
- *Increasing momentum*, a desire to quickly consummate the deal.
- *Ambiguous expectations*, when both sides in the negotiation have divergent opinions about key aspects of the M&A transaction.
- *Multiple motives*, meaning that the acquiring managers have different objectives for the deal.

From this discussion, we find it important to understand how different way of managing the decision-making process will create different types of problems. The logic between different routines and behaviour become essential to be able to understand the causes behind problems. We will deepen the discussion of different problems when we are examining how the case companies were managing their decision-making.

### **The Integration Phase**

The importance of integration issues in the decision-making process affects how the integration phase will be managed. Managers have the opportunity to select a proper integration strategy for the specific M&A transaction, which more or less also affects the outcome of M&As. (Haspeslagh & Jemison, 1991)

According to Haspeslagh & Jemison (1991), top-management should not delegate post-acquisition planning activities. Managers or employees, who were not included in the decision-making for reasons of secrecy, time ability or lack of status, cannot carry out integration issues properly. It is not possible to address integration problems by just keeping people happy or by getting rid of them. Instead, Haspeslagh & Jemison argue that a successful integration process is derived from the attention given to integration issues in the decision-making process. They mean that the M&A process should not be seen as a set of strategic decisions made on rational choices. Furthermore, that the importance of integration issues must be emphasised already in the decision-

making phase. Hence, according to Haspeslagh & Jemison, an important strategic option of the integration process is to what extent managers are planning for integration in the pre-acquisition stage of the transaction.

In comparison, Birkinshaw (1999), also states that managers should have a plan for how the integration is to be carried out. He means that managers can adopt two different approaches towards integration planning in the M&A process. Depending on what outcome is desirable, the managers can either plan for integration of the human assets or the structural assets. One could focus on rationalising, for instance, decreasing duplication of efforts, increasing efficiency, gaining from economies of scale and scope to be able to decrease costs. Alternatively, one could focus on finding solutions for integrating the employees and managers from both the firms. If the managers start with building relationships between employees and creating a common culture, it will end up with satisfied and motivated employees. On the other hand, if the managers focus on the employees it will not achieve the desirable cost savings. Doing both at the same time may not be the optimal solution because it may be difficult to motivate employees in the integration and at the same time announce staff reductions and rotations.

Furthermore, Birkinshaw (1999) argues that time is an important factor to consider also in the integration planning. He means that the managers must decide if they are going to do a fast or a slow integration process, “low road” or “high road”. The two different approaches will give different advantages and disadvantages. A fast integration will result in rapid progress on the cost cuttings in a short term, but foster adverse effects on the employee’s moral due to decreased job security. On the other hand, slow integration will give happy employees but little short-term cost savings.

Birkinshaw (1999) means that it is the settings and conditions of the unique transaction that determine what way to choose. For instance, when the important assets of the company are knowledge-workers who have the options to leave for another company, the high-road option may be the best alternative. On the other hand, if the assets are of structural nature, such as products, brands or market shares, the low road is preferable. In addition, Birkinshaw identifies a

number of other factors that also could influence the choice. For instance, the goal of the transaction comes from different stakeholder groups, or differences in organisational and national culture.

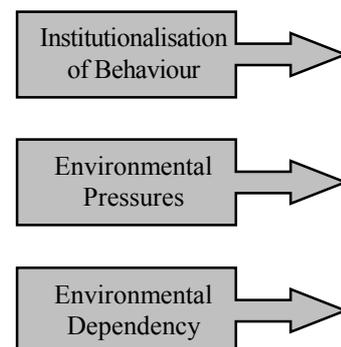
Haspeslagh & Jemison (1991) mean that the different way of planning for integration will determine the presence or absence of problems in the integration phase. They propose three types of problems that come from inappropriate integration planning.

- *Determinism*, which is the problem when managers tend to cling to the original justification in the phase of a different or changing reality confronting the deal.
- *Value destruction*, meaning that the deal itself has an impact on individual managers' and employees' self-interests.
- *Leadership vacuum*, is the management's inability to articulate the new purpose and lead the combined firms.

We have now discussed different ways of managing the different phases of the M&A process. In addition, we have also identified a set of different problems that are related to how the process is carried out. In the following section, we discuss the environmental perspective of our model.

## Factors Influencing and Restraining the M&A Process

According to Buono & Bowditch (1989), there are several external ambiguities and uncertainties that influence how managers make decisions and how M&A processes are carried out. Therefore, we adopt an environmental approach and, in this section, we will more specifically describe the different environmental factors that may influence and restrain the M&A process.



### Institutionalisation of Behaviour

In our theoretical approach, we propose that actors in an organisation may not be fully capable to make isolated internal decisions. According to institutional

theory, Meyer & Rowan (1977) mean that formal organisations were generally understood to be systems of co-ordinated and controlled activities and based on rational assumptions. Today, in modern societies, formal organisation structures are understood to arise in a highly institutionalised environment. Meyer and Rowan argue that professions, programs and policies are created and developed along with the products and services and are assumed to produce rationality. Organisations become driven to use new practices and procedures defined by widespread rationalised concepts. In this way, organisations increase their legitimacy and their possibilities to survive by using new practices.

Selznick (1949) develops one of the earliest versions of the institutional theory. Selznick views organisations as adaptive organisms shaped in reaction to the characteristics and commitments of participants as well as to influences from the external environment. He proposes that organisations are social systems, where goals and procedures tend to achieve different status. Selznick argues that persons bring certain characteristics to the organisation and develop commitments that restrict their capacity for taking rational actions. Organisational procedures and structures become valued as ends in themselves.

Furthermore, Selznick (1949) argues that institutionalisation is something that happens to organisations over time. It reflects the organisation's history, groups involved and individuals who have developed the structure of the organisation in accordance to the external environment. Hence, the created institution will affect how people within organisations make decisions, formulate rules and view specific actions.

In comparison, Berger & Luckman (1967) define institutionalisation as a process of creating reality. They mean that social order to a great extent is affected by a shared social reality. Social order arises from when people take actions, interpret actions and share it with other people's interpretations. In accordance with Selznick (1949), Berger & Luckman (1967) also emphasise that the history of the organisation is a crucial source for institutionalisation of behaviour.

Meyer & Rowan's (1977) use of the concept institutionalised organisation is related to, but not identical with, Selznick's and Berger & Luckman's definition of the same term. Instead, Meyer and Rowan stress external factors and discuss how these factors affect the structural characteristics of organisations. These external factors and social structures make up broader social institutions. In contrast, Selznick (1949) tends to emphasise the internal organisation processes, for example individuals and organisational commitment that give rise to shared rules, myths and beliefs.

Meyer & Rowan (1977) argue that organisational forms are not only attributed by relational and exchange networks, but also by rationalised myths or shared belief systems. They propose that rationalised beliefs do not only play a legitimating role, but often are the primary force creating and supporting organisational forms. In comparison to Berger & Luckman (1967), Meyer & Rowan mean that individuals come to accept widely shared beliefs and make them be taken for granted, the beliefs become socially constructed definitions of reality.

Pfeffer & Salancik (1978) also emphasise the importance of environment in determining the behaviour and life chances of organisations. They mean that organisations will survive as long as they show internal efficiency and are effective in accordance to its external environment.

As we earlier discussed it is not enough to just look upon M&As as merely an internal process. Instead, it is important also to consider the organisation's history and organisation's interplay with its environment in order to understand the M&A process. Since we propose that the idea of conducting M&As may be influenced by both internal and external environment, we agree on the perspective proposed by Meyer & Rowan (1977) and Pfeffer & Salancik (1978). The reason for this is that they view the interplay between internal and external environment as an important factor for understanding companies' actions.

## **Environmental Pressures**

### ***Isomorphic Pressures***

It could be extracted from the discussion above that environmental factors may play a crucial role in the institutionalisation process of behaviour in organisations. Hence, we will in the following section discuss some specific environmental pressures that may influence the M&A process.

Powell & DiMaggio (1991) raise the question of why there is such homogeneity of organisational forms and practices in the business. They identified three different environmental pressures through which this homogeneity is shaped; coercive, mimetic and normative isomorphism. Isomorphism is defined as a constraining process that forces one unit in a population to resemble to other units that face the same set of environmental conditions.

The *coercive isomorphism* comes from political influences, exerted on organisations by other organisations upon which they are dependent. This does not only include responses to governments and formal regulations, but also to other authorities that exert coercive pressures. Powell & DiMaggio (1991) mean that in some circumstances, organisational change can be a direct response to formal and informal pressures.

*Mimetic isomorphism* occurs when an organisation, often as a response to uncertainty, models itself after similar organisations in its field that it perceives to be more legitimate or successful. In other words, mimetic isomorphism influences an organisation's imitation of other organisational structures and practices, which are defined as successful in the field. Powell & DiMaggio (1991) mean that the modelling is a response to uncertainty and that the modelled organisation may be unaware of the imitation of behaviour. The uncertainty arises when organisational technologies are changing, goals and expectations are ambiguities, or when the environment is unpredictable. The aim of modelling itself on other organisations is to solve ambiguities with little effort.

*Normative isomorphism* derives from professionalism. Powell & DiMaggio (1991) propose two aspects of professionalism that are important sources of isomorphism. The first rests on formal education, where organisations correspond to assumptions derived from university specialists. The second is the growth and development of professional networks that influence the organisation. Universities and professional training institutions are important centres for the development of organisational norms among managers and their staff. Another important mechanism for encouraging normative isomorphism is the filtering of personnel. Within many organisational fields, filtering occurs through the hiring of individuals from firms within the same industry, through the recruitment of fast track staff from a narrow range of training institutions. For instance, such as always hiring top-executives from financial departments for particular jobs.

It follows from the discussion that isomorphic pressures may be an explanation of why companies are acting similarly in a particular business field. Hence, if there appears a strong isomorphic pressure within an industry it is reasonable to suggest that the companies within that industry will behave and act homogeneously.

### ***Environmental Pressures and Legitimacy***

The question arises, why companies are that likely to follow the different environmental pressures. According to Deephouse (1996) there is a positive relationship between strategic isomorphism and organisational legitimacy, isomorphism tends to increase organisations' legitimacy. Deephouse argues, organisations that conform to isomorphic pressures, for instance modelling after other organisations, are recognised by regulators and the public as being more legitimate. Ambiguities and uncertainties in the companies' environment make the choice of appropriate strategies unclear. Therefore, organisations create norms of strategic behaviour that social actors also come to accept. In order to understand if there is some particular legitimacy that drives the behaviour in our case companies, we will here briefly examine different types of legitimacy.

Deephouse (1996) defines organisational legitimacy as a status given by social actors. A legitimate organisation is one whose values and actions are congruent with the social actor's values and expectations. The social actor accepts or endorses the organisation's means and purposes as valid, reasonable and rational. In comparison, Meyer & Rowan (1977) define organisational legitimacy as the acceptance of the organisation by its environment and as a necessity for the organisation's survival and success.

Suchman (1995) proposes three different types of legitimacy; pragmatic, moral and cognitive legitimacy. *Pragmatic legitimacy*, is built upon the organisation's and the audience's self-interest. There exist different pragmatic legitimacies, but most studies have focused on exchange and influence effects. The exchange pragmatic legitimacy, is the simplest level, where the focus is on direct exchanges between the organisation and its audience. The influence pragmatic legitimacy focuses more on broader political, economic, or social interdependencies. In this case, constitutions support the organisation, not necessarily because they believe that it provides specific exchange advantages, but more as serving their larger interests.

The second type, *moral legitimacy*, is more a normative evaluation of the organisation's behaviour. In contrast, to the pragmatic legitimacy, moral legitimacy focuses on judging if a given activity is right or wrong, instead of judging if the activity benefits the evaluator. Finally, *cognitive legitimacy* is based on cognition rather than on interest or evaluation. Cognitive legitimacy is divided into two variants, legitimacy based on comprehensibility and legitimacy based on taken-for-granted beliefs. The former emphasises how cultural models make it easier to predict and accept chosen activities, which lead to that specific activities become more meaningful and inviting for the audience. The latter, is based on the fact that institutions not only seem to make uncertainties manageable, but also transform them into taken-for-granted beliefs. This kind of legitimacy is said to be the most powerful one since the audience ignores all alternative actions. (Suchman, 1995)

Scott (1995) also suggests three factors in the institutional environment that influence legitimisation, the regulatory, the cognitive and the normative. The

*regulatory* is composed of rules and laws that exist to ensure stability and order in the environment. Certain types of behaviour and actions are promoted and others are restricted. The *cognitive* factor is almost identical with Suchman's cognitive legitimacy and emphasises that organisations need to conform to cognitive structures in society to be legitimate. In addition, the *normative* factor is like Suchman's moral legitimacy.

From this, we see that organisations that respond to isomorphic pressures may increase their legitimacy. On the other hand, companies that do not respond to isomorphic pressures will not receive the same legitimacy for their behaviour. Hence, it is interesting to discuss why it is important for organisations to strive for legitimacy from its audience.

## **Environmental Dependency**

### ***Consequences of Environmental Pressures***

According to Scott (1981), isomorphism within environmental institutions has some crucial consequences for organisations. Scott argues that institutional isomorphism promotes the success and survival of organisations. Conforming to legitimated formal structures, tends to increase the commitment of internal participants and external actors. Consequently, if the organisation is following the demand of society, it becomes more likely to remain successful without proper internal efficiency.

In comparison, Powell & DiMaggio (1991) mean that each of the institutional isomorphic processes can be expected to arise, in the absence of evidence, as they increase internal organisational efficiency. The reason for why organisational effectiveness is improved, is often that organisations are rewarded for their similarity to other organisations in their fields. The similarity increases the company's legitimacy and makes it easier for the organisation to attract investors, personal et al.

Additionally, Pfeffer & Salancik (1978) argue that organisation's survival to a great extent is dependent on how well companies are effective in accordance to their environments. The external efficiency is determined by how successful the company fulfils the demands from their environment and conforms to

acceptable behaviour. Most important are the demands that come from those parts of the environment that control such resources that are of critical importance for the organisation. The critical resource tends to vary among different organisations in different situations and can be capital, know-how and labour. Capital is often the most critical resource for companies and therefore the stock market and other financial institutions may be important actors. Furthermore, when companies hold enough capital, the focus is to fulfil the markets demand since the financial institutions will become more important when the supply of capital is short.

Furthermore, Pfeffer & Salancik (1978) argue that organisations are not only dependent on the environment itself, but also on changes in the environment. The environment of the company tends to change constantly, which often results in the organisation's resource allocation decreasing. Hence, when the organisation does not meet its environment, the internal efficiency will decrease and the company's survival is threatened in the long run.

To summarise, the success of organisations seems to rely on other factors than merely internal efficiency of productive activities. Hence, organisations that succeed in conforming to their environment will gain the legitimacy and resources needed to survive. According to Pfeffer & Salancik (1978), companies can choose between two alternative actions in order to adapt to their environment. The companies can either choose to adapt themselves to the environment, or they can try to affect the environment directly. For instance, companies can affect their environment by conducting M&As. Pfeffer & Salancik mean that growth may provide organisations with additional control over their environment, which consequently enhances their possibility to survive.

### ***Strategies for Coping with Environmental Pressures***

In the following section, we will discuss how companies respond to environmental pressures, if they follow or influence them. Suchman (1995) proposes two different views of how organisations look and react upon the different pressures. The views are referred to as the institutional approach and the strategic approach.

The *institutional approach* (Meyer & Rowan, 1977, Powell & DiMaggio, 1991) suggests that external institutions affect the organisation in every detail. They mean that organisations are seeking for legitimacy and support by adopting structures and procedures that match widely accepted models. In contrast, the *strategic approach* (Oliver, 1991, Elsbach, 1994, Pfeffer & Salancik, 1978) assumes that the organisation is not only manipulated and influenced by institutional pressures, but is also an active actor using different strategies to meet the different demands.

Elsbach (1994) argues that the difference between the strategic and institutional approach is a matter of perspectives. The strategic approach suggests that managers are “looking out”, while the institutional approach suggest that society is “looking in”. According to Suchman (1995), these views result in different perspectives of how organisations react to environmental pressures. He proposes a dual approach when he argues that organisations meet both strategic and operational challenges and institutional constitutive pressures. Hence, at the same time as he believes that managers can affect the environment, he is sceptical towards the autonomy objectivity and power of managers.

Lack of attention to the role of the organisational self-interests is a common criticism of the institutional perspective. For instance, Oliver (1991) argues that institutional theories do not consider the strategic behaviour that organisations use in direct response to the institutional pressures.

Instead of focusing on strategies towards institutional pressures used by organisations, researchers have also emphasised how organisations cope with organisational legitimacy. For instance, Elsbach (1994) argues that institutional theories have focused on how organisations build support for legitimacy by maintaining normative and widely endorsed organisational characteristics. Moreover, he means that institutional theorists suggest that organisations may strategically and manipulatively use links to institutionalised structures or procedures to demonstrate the organisation’s worthiness. Elsbach means that institutional theorists have not yet discussed specific strategies that organisations can use for influencing their legitimacy. Consequently,

institutional theories are neglecting the use of specific individual-level tools, in managing the legitimating process.

To summarise, we discussed from both a strategic and an institutional perspective how organisations can cope with institutional pressures. Furthermore, we also examined how organisations may react upon institutional pressures and strategies to get legitimacy. In accordance to Suchman (1995) and Deephouse (1996), it is important to not only view the organisation as a manipulative entity, but also as an actor that may react directly upon pressures in its environment. We believe in this duality and to determine, what strategy to choose in the specific situation, may be due to the power of the organisation and its dependency on its institutionalised environment.

With these theoretical discussions in mind we will now focus on how our case companies are acting in accordance to our research questions, how the M&A process is managed and why. However, we will start by shortly presenting the case companies included in our empirical research.

## THE PRESENTATION OF CASE COMPANIES

*In the following sections, we will briefly present the six companies that were the subjects for our case study. In five of the cases, the presentation will be made for the company of which perspective we have chosen to study. These are Adera Group, Framfab Cell Network, PreEra and Frontec. However, in the case of the merger between Nexus-Devenator, we will make a short presentation of both companies. The reason for this is that these two companies have some fundamental differences that may affect the M&A process. However, our perspective in the analysis will be from Devenator's point of view.*

### **Adera Group**

Adera was founded in Gothenburg 1983, as a traditional business-to-business agency, which prioritised internal marketing, PR and trademark know-how. Today, Adera is an international e-business consulting firm offering integrated services in marketing, IT and management. The vision is to be the number one eBusiness consultancy in Europe in terms of client satisfaction.

The company has offices throughout Sweden and Europe, as well as Dallas in the US. Since 1999, Adera is listed on the OM Stockholm Exchange. The number of employees at Adera jumped from 144 in December 1998 to 320 in December 1999. At the end of the year 2000, the total number of employees in the whole corporation is expected to be about 800 to 1000.

The outspoken mission of Adera is: *"...to provide clients with high quality solutions, provide employees with an incentive by having interesting, challenging and developing projects and satisfy owners by generating profits from our projects"*.

### **Framfab**

Framfab was started as Framtidsfabriken in 1995 by Jonas Birgersson, president of the non-profit association SVEROK. Framfab's core business is to co-operate actively in the development of new business projects for the new e-commerce economy. This is done by both commercialising good ideas and

nurturing and supporting entrepreneurial spirit. The vision is to be the fastest and most innovative Internet consultancy in the world.

Today, Framfab is listed on the OM Stockholm Exchange and is one of the world's leading Internet consulting companies with more than 2,500 employees. In order to provide an innovative climate, Framfab has developed a unique organisational structure consisting of several small offices, called cells. In the beginning of 2000 Framfab had about 40 cells within Sweden and throughout Europe. The stated mission of the company is: *"to discover and develop the ideas that will drive the digital economy"*.

## **Cell Network**

Cell Network is a consulting company in the area of Internet services and interactive media. The objective is to create a world leading consulting company in the new digital economy and offer a full range of services in ten leading European markets. The target group of customers is top, blue chip companies and the largest customer in Sweden is Ericsson. Today, Cell Network is active in 15 countries and on 3 continents; Europe, Asia and North America. The company has just more than 2 100 employees and 45 offices and is listed on OM Stockholm Exchange.

Cell Network's vision is: *"the creation of a close and successful partnership with customers, employees and shareholders in the future ... a future which is already here. Together we create a new beginning."*

## **PreEra**

PreEra was established in 1997 as a consultancy, offering services in management, marketing, design and technology. PreEra's overall goal is to be a supplier of service solutions to companies in the new economy. The business is mainly situated in Gothenburg, although it is charged with projects in other places in Sweden and abroad. Today, PreEra has about 50 consultants employed within the areas of organisation development, market communication and process- and system development. The company is privately owned and is not listed on the Stock Exchange.

## **Frontec**

Frontec was established in 1981 as a part of the tele- and data communication company Teleplan in Stockholm. Since 1986, Frontec is an independent corporation listed on the Stockholm Stock Exchange. As a consultancy in the new economy, Frontec's business idea is to offer services and business solutions to customers in order to develop them into competitive e-business companies. Today, Frontec has subsidiaries in 12 countries around the world with about 700 employees. The vision is: *"to create customer value through offering a wide range of services and IT solutions where all parts in the customers business, organisation, processes and technology are integrated"*.

## **Nexus-Devenator**

In the beginning of 2000, Devenator and Nexus decided to merge and the deal was closed by the end of September 2000.

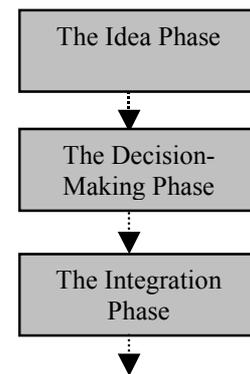
Devenator was founded in 1981 as a company within the business of system development. The company offered consultancy services within three fields; business development, project management and qualified system development. The main lines of business were telecom, medical technology & pharmaceuticals, energy and banking & insurance. At the time of the merger with Nexus, the company had about 70 employees. An important policy of Devenator was that both the employees and top-management are supposed to be partners in the company. Consequently, the company was not listed on the Stock Exchange.

Technology Nexus AB was formed in 1984 as a company within the field of IT security and communication. Since 1998, Nexus is listed on OM Stockholm Exchange and has offices throughout the whole of Sweden with about 270 employees. The head office is placed in Linköping. The outspoken vision of "new" Nexus is: *"to be one of the leading partners of secured communication solutions in the digital economy"*.

## THE M&A PROCESS IN OUR CASE COMPANIES

*The analysis of the M&A process in the case companies is built upon our theoretical model presented in the beginning. We will divide the analysis into two parts, where the first includes the idea, decision-making and integration phase. The second part includes a discussion about environmental factors influencing and restraining the process.*

In comparison to the theoretical discussion, the first part of the analysis will follow the steps in our model. Hence, we will go through the phases in an orderly way; the idea, decision-making and integration phase. For each of the phases, we will present a short description of a specific case in each company. The aim of these is not to present all empirical findings, but rather to give the reader a more substantial picture of how each phase is carried out in the case companies. For instance, what were the drivers behind the idea to acquire in a specific case.



The specific case descriptions will be followed by a comprehensive discussion of why the process is managed in a certain way. We will use quotations from managers in the case companies. However, since we are not supposed to make any company specific conclusions and according to the respondents' desire for secrecy, we will keep the respondent and the company anonymous.

### **The Idea Phase in the M&A Process**

In the theoretical discussion, Larsson's (1989) matrix of different strategic combinations was explained. In his model, strategic motives are divided into horizontal, market and products extension, vertical backward and forward and conglomerate. Furthermore, we were also discussing economic and financial motives, as economies of scale and scope, for conducting M&As and some underlying motives such as managers' self-interests. As we pointed out in the theoretical discussion, it is crucial to first understand the strategic relatedness of motives since that also reflects what objectives and benefits the company

may expect from the deal. Hence, we will start by discussing what key motives have driven some specific deals within the case companies.

## **Findings from Specific Cases**

### ***Adera Group***

The motives of M&As in the case of Adera are to either increase the geographical market or gain competence within existing or new areas. One example of M&As for expanding the geographical market is the acquisition of Blanking. The motive behind this acquisition was to strengthen the position in the expanding Öresund region. Another such acquisition is Adera's purchase of Nucleus, which was a leading British e-business consulting firm. Example of M&As conducted in order to get access to specific competence is the purchase of ITage AB. This purchase enabled Adera to focus on supplying solutions within third parties' products. In connection to this deal Adera's CEO said:

*“Our overall market is broadened, while at the same time we are supplied with advanced skills”. (Press release 2000-01-17)*

The drivers behind the motives arise from customer demands, since the customers are acting globally and therefore require global based consulting firms. In order to meet this demand, M&As become crucial since Adera has not been able to expand fast enough with organic growth.

### ***Framfab***

In Framfab, M&As are used as a growth strategy parallel to organic growth, to be able to get access to new knowledge and new geographical markets. An advantage of using M&As, is that it makes it easier and speeds up the process of capturing new markets and new skills. For example, the motive behind the acquisition of Guide was to get access to competence and increase and broaden the supply of holistic services. Guide was an older company, which had advanced technology and properly developed organisational structures. An example of getting access to geographical markets is the deal between Framfab and the German based company Mindfact in Köln. In the end, the general motive behind Framfab's M&As is to become a big player in the market.

### ***Cell Network***

The motives for conducting M&As is to get access to new knowledge in order to deliver holistic solutions to global customers. For instance, the motive behind the merger between Cell Network and Mandator was to complement each other's knowledge and strengthen the business profiles. Cell Network got access to Mandator's technical skills, while Mandator got access to knowledge in the field of marketing and communication skills. To increase the market position abroad, Cell Network acquired Danish Mousehouse A/S and Voove SA in France at the end of 1999. In general, demands from the stakeholders are the main drivers behind the M&As. Customers demand global actors and stockholders' demand growth in share value.

### ***PreEra***

The primary motives behind the two acquisitions accomplished by PreEra have been to grow and extend the business area. Since customers are more likely to consult larger firms, the company size is perceived as a prerequisite for development in PreEra. In both cases, the company got access to new competencies. In the acquisition of Peperoni, marketing skills were acquired and in the Ekan case management skills were acquired.

### ***Frontec***

The dominating motive in Frontec is to increase market share in order to meet demands of being a global actor from clients. In addition, Frontec aims to get access to knowledge within management and IT to be able to fulfil the strategic plan. One example, is when Frontec acquired Barent Multidesign, where the company strengthened its range of eBusiness services. The driving forces to grow primarily come from demands from owners and customers. The advantage of growing by M&A, in comparison to organic growth, is that the company gets access to new clients.

### ***Nexus-Devenator***

In the merger between Nexus and Devenator the motives came from both Nexus general expansion plans and Devenator's motive to become a big player in order to get access to advanced projects. Additionally, in order to attract talented people, the companies needed to work with global customers.

Furthermore, both companies extended their knowledge through the merger, which also enabled them to deliver holistic services.

### An Analysis of the Idea Phase in the Case Companies

We find from both primary and secondary data that the dominating strategic motives for accomplishing M&As in all the case companies are combinations of the categories *market extension* and *product extension*. In addition, the pure motive of becoming larger, *horizontal combination*, with same production and market relation, is stated by all of the case companies. See figure 5.

At the same time, it could be discussed what are related and what are unrelated products. The services offered by the acquirer and the acquired are not completely unrelated but rather complementary, which make the distinction between horizontal combination and product extension difficult.

		MARKET RELATION	
		Same	Different
PRODUCTION RELATION	Same	<b>HORIZONTAL</b>	<b>MARKET EXTENSION</b>
	Long-linked	<i>Vertical backward</i>	<i>Vertical forward</i>
	Unrelated	<b>PRODUCT EXTENSION</b>	<i>Conglomerate</i>

Figure 5. Different Strategic Motives in the Case Companies

Source: Larsson (1989) p.13

All the case companies pointed out that the motives of gaining and broadening specific competence and getting access to geographical markets were the main reasons for conducting M&As. As in traditional companies, the motive of becoming a big player in the market seems also to be a motive in all the case

companies. At the same time as the motives are similar to traditional motives, there seem to be new drivers behind M&As in the case companies. Traditional advantages of being a big player, such as economies of scale and scope, internal efficiency improvements and cost reductions, are hardly even mentioned by the respondents. Instead, the main motives are to increase market share and market power. In contrast to traditional outspoken advantages of being a big player, the case companies seem to focus on increasing sales rather than cutting costs. The reasons for this, in the case companies, are to be able to attract global clients and meet the financiers' demand for growth.

Furthermore, the term synergy is not discussed in relation to cost reductions or exchange of certain competencies. Synergies are discussed in terms of combining complementary services in order to get access to a wider range of customers. Even if some of the acquisitions are conducted in order to strengthen the existing knowledge, the primary motive is to make use of the integration in different fields of services. For instance, completing the IT section with knowledge from the marketing and management fields. The advantage of offering a broader range of services is to increase revenues by attracting new clients.

*“The new challenge is to offer services that includes knowledge from IT to management to meet the demands from customers.”*

*“The motives behind that deal was to increase the competence in order to offer services which include the whole value chain.”*

*“The primary motive was to extend the competence in order to offer clients holistic solutions”*

*“Holistic solutions will increase in importance since the customers will demand such solutions in the future. For instance, it is difficult to come to general agreements with customers if you cannot offer a broad range of services. The M&A makes it possible to offer holistic solutions”*

From the quotations, we see that M&As are mentioned as a necessity to be able to fulfil customers' or stakeholders' demands for growth. Meeting customers'

demands for growth, were mentioned as very important by all the companies, while stakeholders' demand for growth was only emphasised in the listed companies. The problem of not being able to grow organically is also mentioned by all respondents as a motive for conducting M&As. The company needs M&As as growth strategies due to the lack of time and resources of only growing organically. For instance, we noted following quotations in the interviews when we stated the question of where the company would have been today without growing by M&As:

*“Without M&As we would not have been established in Europe.”*

*“Our business would not include services within the field of IT and management.”*

*“Our company had probably survived for a couple of years but would have been perceived as quite boring and uninteresting by the market.”*

*“In order to grow there are no other alternatives than mergers”*

*“Once, we tried to grow organically in a new market but it took too long and it became very expensive”*

Hence, accomplishing M&As as a substitute for organic growth seems also to be a very strong motive that drives the idea to acquire in several of the case companies. In comparison to traditional industries, these companies may not have the option to grow organically due to the business is characterised by a set of new pressures. In traditional industries, the choice between organic growth and M&As might be two different strategic options. However, in the case companies, there seem to be no other alternatives due to the importance of quickly attracting clients and acquiring new knowledge and skills.

In the listed case companies, motives such as ensuring survival and minimising the risk of being acquired seems to be other reasons for choosing M&As over organic growth. The companies seem to be forced to grow fast, otherwise they may lose their power and attractiveness. The case companies do not only compete for customers but also for potential partners. For instance, one of the

managers means that most of their potential partners are also scrutinised by other companies. In addition, another manager means that if “new” skilled companies appear, the company will try to acquire it before a competitor will do it.

The risk for being acquired, in combination with the fear of not showing growth, may result in a high level of uncertainty among the managers. This uncertainty may also be a factor that strongly influences the idea to merge or acquire. According to Buono & Bowditch (1989), in some of the case companies M&As seem to be an outcome of uncertainty and market instability. A fear of not growing fast enough or not getting access to additional resources will be created. This fear comes from larger companies will strengthen their position and that one will be less competitive if the firm does not grow fast enough. Following quotations indicate that fear does have an impact on the idea to conduct M&As in the case companies.

*“The market is uncertain, which creates uncertainty in the company and among managers. Since nobody knows what the future is going to be, M&As decrease the uncertainty about the future”*

*“If you do not grow fast enough, the competitor will acquire you”*

*“Everything is happening at a rapid pace, which demands the ability to change”*

*“Without a strategy of where to go, your competitors will shape the future, without your influence”*

From this, we see that all motives may not only be based on rational assumptions, such as strategic relatedness. Instead, there may also exist underlying motives that influence the idea to accomplish M&As. Managers may use M&As as a tool for reducing their own uncertainty. For instance, reducing the uncertainty by pursuing growth and increasing the size of the firm in order to ensure job security and company survival.

To summarise, the case companies mention almost the same articulated motives and drivers of why they conduct M&As. Thus, in contrast to common outspoken motives in traditional literature, the case companies seem to be much more externally oriented. The drivers seem to be the demands from customers or financiers. In addition, competitors' actions and behaviour also seem to drive the idea to acquire.

Noticeable is that none of the companies even mentioned internal efficiency, such as cost reductions. Instead, efficiency is supposed to be achieved by combining different competencies and offering holistic solutions to the customers. An important notion from the case companies is that the motives for conducting M&As are so widespread and commonly shared among the different companies. Furthermore, the idea to acquire is both influenced by rational strategic motives and underlying non-rational motives. In the next section, we will examine how the decision-making process is carried out.

### **The Decision-Making Phase in the M&A Process**

In the theoretical approach, we examined Haspeslagh & Jemison's (1991) dimensions that illustrate how companies may handle the decision-making-process in accordance to its external and internal conditions. We will use these dimensions in order to understand how the case companies make and justify decisions and explain why they act in a certain way. The dimensions are the time horizon of managers, how the company competes in the market, involvement of top managers, analytical versus political decision-making and consensual versus individualistic decisions. (See figure 4, page 18).

First, we will illustrate how the case companies studied were managing their decision-making processes by pointing out some specific transactions. Furthermore, by analysing our empirical findings with the help of our theoretical framework, we will describe how the case companies are taking M&A decisions in accordance to new conditions.

### **Findings from Specific Cases**

#### ***Adera Group***

Due to evaluations and assessments of potential partners is an ongoing process, the decision-making process starts with a selection of the most appropriate

partners. For instance, in the purchase of Nucleus about 50 potential companies were examined in the British market of which 20 later were chosen for closer analyses. In this stage, three to four top managers were involved in the process and examined the different alternatives. Important criteria for the choice of partner were similarities in strategy, management, branding, vision and growth. When the Group Executive Committee had developed the final proposal to purchase Nucleus, it was forwarded to the Board of Directors', who made the final decision.

When the Board had accepted the final proposal, a "letter of intent" was written between the two companies. It was important to assure the deal since competitors also were interested in Nucleus. After the letter of intent was written, a due-diligence process was followed where deeper analyses of the companies were conducted. The decision-making process in the case of Nucleus was characterised by time pressure and the time horizon for decision making was short until the letter of intent was written. Nevertheless, the first discussion was made in May and the deal was finally closed in September. Since Adera is listed on the Stock Exchange, all preparations and negotiations were kept secret until they delivered the press release that the deal was assured.

### ***Framfab***

In Framfab, potential future partners are identified through a continuous scanning process of the market. A certain M&A department conducts this process, where people are employed to find suitable partners. In the case of Guide, it was spread by rumours and media that Guide had problems with falling margins and was looking for a partner. A few people in the top-management were involved and the deal was more or less closed during one night. The important criteria for the purchase of Guide were the company's structural capital and its unique technical competence. Since the high demand for secrecy, timing and speed were of great importance when acquiring Guide, the time horizon of the decision-making process became short.

### ***Cell Network***

In general, different people inside or outside the company suggest potential partners for Cell Network. Externally people could be advisors or brokers while

internal people could be managers or consultants that get in contact with interesting firms. In the case of Mandator, the decision was based on a mutual desire to merge. The decision-making process proceeded at a very high speed due to the requirement of secrecy. Only top-management was involved in the initial stage and not until the decision was made, did the employees get information about the deal through a press release. When the intention to merge was announced a due-diligence process was conducted. In this process, the companies were financial and cultural evaluated.

### ***PreEra***

The important criteria for the purchases of Peperoni and Ekan were a combination of proper financial position and complementary competencies. In addition, personal relations and mutual attraction were crucial factors.

In PreEra, the Board of Directors' conducted the discussions and negotiations of the purchases of Peperoni and Ekan. After the Board had taken the decision to acquire, the procedure was rather different in the two cases. In the Peperoni deal, there was a very short and safe process while the acquisition of Ekan lasted for about four to five months. Since PreEra is not listed on the Stock Exchange, 4-5 people in the top-management developed and communicated a common strategy and mission to the employees before the deals were closed.

### ***Frontec***

In the search for potential partners, Frontec conducts a continuous scanning process of the market. Frontec also receives invitations from different companies and external brokers every week. In the acquisition of Barents Multidesign, discussions were held by the top-management over three to four weeks until the final decision was made. Important criteria that were considered were primarily Barent's strategy, market and customer base. After the initial negotiations, a letter of intent was written. Since timing was of great importance in this case, the speed of the decision process was very high.

### ***Nexus-Devenator***

Before the merger with Nexus, Devenator was scrutinising about 20 potential partners, of which a few led to closer discussions and negotiations. Noticeable

is that Nexus was not one of the partners that Devenator was in contact with from the very beginning. Instead, it was a personal contact between the companies' top-management teams that eventually led to the discussions to merge.

The decision-making process of Nexus-Devenator lasted for about four weeks and the top-management held the negotiations. Since Nexus was listed on the Stock Exchange, there were requirements on secrecy from their side. Nevertheless, Devenator was to some extent able to justify the deal among its employees, without announcing name of Nexus. In order to ensure that the companies were compatible with each other, the decision-making process was finished by a common business plan. Furthermore, after the final decision was taken, extended financial evaluations of the companies were conducted.

### **An Analysis of the Decision-Making Phase in the Case Companies**

In the following section, we will use the different dimensions in order to present a balanced view of how and why the decision-making process is managed in a certain way.

The first dimension, the *time horizon*, is about the time horizon embedded in the decision-making process. This dimension seems to be very crucial and short term oriented in the decision-making for all the case companies. There are two primary indicators for this. Firstly, the process is characterised by a very high-speed and, secondly, the decisions are very dependent on timing. For instance, if the company cannot take a decision fast enough it may lose the advantage of the deal. Hence, timing itself has also become crucial for the ability to accomplish M&As since companies must take actions very quickly when opportunities arise. In five of the six cases, timing was the determining factor for conducting the deal.

*“Timing is the critical success factor in the decision-making process, not high speed itself”*

*“Timing itself is a factor that influences the decision of conducting M&As. Two weeks later the decision may have been different”*

The driving forces for increased timing and speed within the decision-making process are said to be the present value of the stocks, the competitors' interest in the potential object and the stakeholders' expectations. Present value of stocks becomes important since most of the M&As in the case companies are not accomplished by money as payment. Instead, the companies often pay with their own shares, which result in the deal becoming more sensitive for fluctuations in stock value. Hence, economic fluctuations strongly influence the possibility to accomplish M&As. Since, stock value also reflects the stakeholders' expectations of the company, it is even more important that the decision-making process is proceeding smoothly. The ability to take fast decisions becomes crucial in order to minimise the risk that the information will leak out and destroy the potential deal. If competitors and the market get access to the information the conditions for the deal could rapidly be changed, for instance the deal may become impossible if the value of the stock is changed.

*“The determining factor for conducting a certain merger is timing, if the stock exchange price drops we would not be able to buy since we use shares as payment”*

*”The stock exchange has a great impact on the market. In the end it decides the access to capital and purchasing power and the possibility to conduct M&As”*

*“The stock market is of great importance, since it in the end decides the supply of money and the possibility to buy”*

*“The stock exchange price is the most powerful paramount of success, due to all companies within the industry are affected by the stock market”*

Furthermore, if not acting rapidly and taking advantages of opportunities some of the competitors will make use of the situation and buy the potential object. As we see from the case descriptions the majority of the case companies have an ongoing scanning process for partners. Consequently, there is a competition of potential objects between the companies. If the company does not act fast enough, the object will be available to competitors and the company risks

missing the opportunity to accomplish the desired deal. This seems to be stressed in the listed companies and one typical quotation is:

*“It is important to agree upon a letter of intent since most of the objects are invited by other companies”*

This could be compared to Haspeslagh & Jemison (1991) when they propose that the primary force that often drives the increased momentum is secrecy and strain. These forces also influence the decision-making process in all the listed case companies. The primary reasons for this are the increased importance of the stock market and the competition about potential partners.

The second dimension that affects the decision-making process is *how the companies compete in the market*, if the organisation wants to establish a dominant market position, or get fast financial results. In the listed case companies, it is obvious that M&As are not expected to show any short term profits. Instead, they are strongly influenced by showing short-term growth. As earlier mentioned, the motives for accomplishing M&As is to increase market share in order to establish a dominant market position for the future.

In the interviews, it was stressed that the importance of growth in market share is a necessity in order to attract clients or investors. As discussed in the analysis of the idea phase, companies seem to act in line with the external expectations. From the case companies, it is also clear that the focus has been on growth rather than to quickly increase profits. For instance, the growth in sales has a dramatically upward trend, while the changes in profits have not the similar positive trend. At the same time, we see a clear distinction between the listed and the non-listed companies. Most of the respondents from the listed companies were aware of this trend, but they seem to have chosen growth instead of profitability. The reason for this may be that they have not been expected to show high profit in the short run. Instead, the stakeholders seem to have expected that the quick growth should generate profit in the long run by creating a dominant market position. At the same time, we also find that a shift is expected in the near future and that profitability will increase in importance.

*“The demand for growth has been very strong which has led to many companies putting less emphasis on profit. Of course the demand for increasing profit will in the future increase in importance, otherwise everything has only been a play for the audience.”*

*“In general this industry is dominated by motives of gaining a position on the market and increasing the company’s value in order to attract capital. What is different in M&As today, in comparison to one year ago, is a higher demand on profitability and reasonable future results.”*

*“The interrelationship between profitability and growth vary over time. The industry has been extremely dominated by growth but profitability will become more important when its maturity increases.”*

*“The patience of the stock market will soon be exhausted and it will not longer be enough to just grow, the market wants to see profitability”*

From this, it is clear that the companies have not been expected to show short financial results, but as we see from the quotations, a shift is coming. Since the companies have fulfilled the demand for growth they have attracted external capital without showing enough short term growth in profit. The exceptions to this discussion are the companies that were not listed on the Stock Exchange. These companies were more dependent on short-term profit for assuring the supply of capital.

The third dimension, *involvement of top-managers*, is to what extent top-managers want and expect to be involved in the decision-making process. In all the case companies, it is a common pattern that the decision-making phase of M&As only involves a very few people in the top-management. Middle management does not at all seem to participate in this process. The primary reasons are the aspects mentioned before, the demand for high speed, timing and secrecy. In order to meet the demand for timing and speed it is of great importance that the decision-making process is efficient and quick. In addition, it is easier to meet the demand for secrecy if only a few persons are involved. All the case companies were emphasising this aspect and the two most illustrative quotations are:

*“Since we are listed on the Stock Exchange the initial negotiations are extremely secret, only a few people at the highest management level are involved in the negotiations.”*

*“Only top-management is participating in the initial stage in the decision process. The speed is crucial since information leaks out all the time, which can destroy the deal.”*

The problem of secrecy may not be a new phenomenon for listed companies, but it seems to become more important for companies in this industry since the deal is strongly dependent on expectations and the stock value.

*Analytical versus political decision-making*, is a question if the decision is based on top-management's own subjective interpretations of the transaction or if it is based on a broad range of facts and analyses. All the case studies indicate that the M&As are based on a fast political decision. For instance, the due-diligence teams conduct the analytical part after the letter of intent already is written. Although the due-diligence process is carefully conducted, the initial decision seems hardly to be changed when the letter of intent is written. The drivers for the political decision-making process seem to be the increased momentum, the demand for speed and the involvement of only a few top-managers.

Furthermore, personal relations and informal contacts also seem to be important drivers for accomplishing a transaction. Many of the decisions seem to be taken by strong influences from intuition, apparent opportunities and feelings. One implication of this is that the circle of top-managers within the industry is quite limited and many objects for M&As are often found due to close relations between managers. In addition, high uncertainty and strong competition in the market make mutual attraction between top-managers an important driver for accomplishing an acquisition. A high demand for growth in combination with time pressures may make managers more likely to choose a partner by the means of personal relations in front of analytical evaluations. Four illustrative quotations are:

*“In the circle of top-managers a close integrated network exists between managers from different companies. This can lead to informal contacts being made and that a top-manager becomes “in love” with another top-manager, which can result in a merger or an acquisition. M&A can therefore be an outcome of intuition, timing and two weeks later the merger may be out of date, the attraction has suddenly disappeared.”*

*“In general the decision to merge is not so well-planned as it looks. The idea to merge is not actually born through assessments, but rather built on an attraction between the parties”*

*“The network between top-managers in the industry is very close, which can result in two companies merging due to the managers involved, understand and know each other. This can lead to that M&A decisions to some extent are based on intuition and feelings.”*

*“Already before the transaction there was a natural connection between us since their X was chairman of our board.”*

Another explanation for the political decision-making may be the high level of uncertainty in the industry. Even if the companies try to conduct as careful analyses as possible, there always occur unexpected issues and changed conditions. Since time is a primary threat for these companies, the decision process seems to be a balance between careful evaluations and speed.

The *consensual versus individualistic* is to which extent the decision-making process depends on a single champion at each level or not. As already discussed, only a few top-managers are involved in the process. From our empirical findings, it is not possible to identify one single individual in each company as a champion in the decision-making process. Instead, the top-management involved together seems to have the overall responsibility and power for the deal without involvement of people from other levels in the organisation. As stated above, even if a due-diligence team evaluates the deal before the final decision is taken, the first preliminary decision is hardly ever changed. Consequently, the decision-making process does not depend on one

single manager, nor on collective consensus, but more on very few powerful champions in the top-management of the company.

To summarise, the general pattern from the analysis of the case studies is that the decision-making process is carried out at a very high speed. The demand for increased momentum seems to play a strong impact on companies' actions and behaviour through the whole process. The analysis also indicates that the four listed companies are more affected by the time factor than the two companies that were not listed at the time of the transaction. In relation to the different dimensions, the process is characterised by a short time horizon, few top managers involved and a political decision-making style. Hence, although we argued that the companies' way of competing in the market is not focused on getting short-term financial profits, the case companies' way of managing the decision-making process is close to the "limited" resource allocation style.

As we pointed out, the idea to merge is born from the motives of outspoken strategic objectives, but also from underlying motives arisen from the uncertainty in the industry. Consequently, the non-rational motives in combination with the case companies' limited decision-making style indicates that some problems may occur. In the following section, we will further discuss this by reflecting back on the problem proposed by Haspeslagh & Jemison (1991).

### **Implications from the Decision-Making Phase**

The dimensions studied are closely related through the presence or absence of problems in the decision-making process. In order to investigate the interrelationship, we will here discuss the different dimensions in connection to how the decision-making process is carried out in the case companies. Haspeslagh & Jemison (1991) propose four different problems that may arise if companies are not handling the decision-making process properly. These are fragmented perspectives, increasing momentum, ambiguous expectations and multiple motives. We have identified two of these problems from our case studies.

The *increased momentum* seems to appear as a problem in the case companies. According to Haspeslagh & Jemison (1991), as the pace increase, participants tend to feel unable to stop the process or even to slow its tempo. Therefore, the managers' ability to carefully evaluate the strategic act may decrease and the possibility to achieve a successful outcome of the deal is threatened. In four of the case companies, the respondents confirmed that some problems had occurred due to the increased momentum in the decision-making process. For instance, in one case company the management did not realise that the acquired firm did not really fit into the existing value chain until the deal already was closed. In another, the planning for integration was suffering from the strong time pressures in the decision-making process. On the other hand, the respondents argue that due to the existing conditions in the market they must compromise between quick decisions and proper evaluations. Since the process is already perceived to be too slow in the case companies, there do not seem to be any alternatives.

Concerning the problem of *ambiguous expectations*, Haspeslagh & Jemison (1991) mean that both companies often enter into M&As negotiations with certain expectations about the deal. Since there is great potential for disagreement on these certain points during the negotiations, managers tend to agree to disagree until the deal is closed. However, Haspeslagh & Jemison mean that, sooner or later, the ambiguity that was essential to reach an agreement will become a source of conflict.

In the case companies, there seems to be a common perception of why the managers are conducting M&As. The circle of top-managers in the industry is rather close and therefore perceptions and assumptions may be homogeneous. This may lead to different expectations of the deal not being discussed. At the same time, the demand for growth and high speed in the decision-making process may lead to the managers agreeing to disagree until the transaction is assured. However, both cases may lead to that managers do not discuss other implications of the deal. Close personal relations in combination with high time pressure can lead to important problems being avoided in the initial negotiations, which could create disagreements later on in the M&A process. For instance, one manager mentioned that a common mistake was to neglect

sensitive questions in the beginning of the negotiation, such as price issues. When the negotiation was almost finished and the price was discussed, the parties did not come to an agreement and the potential deal was destroyed.

Hence, from this discussion we find that our case studies support the statement that the absence and presence of problems in the M&A process is dependent on which resource allocation style the company adopts in the decision-making. The limited resource allocation style has created implications for how the companies handle the balance between carefulness and speed.

### **The Integration Phase in the M&A Process**

Haspeslagh & Jemison (1991) stated that a successful integration is dependent on attaching great importance to integration issues already in the early stage of the process. They argued that the M&A process must not be seen as strategic decisions made on rational choices and that M&A could not be seen as independent on-off deals. Therefore, the importance of integration issues should be taken into consideration already in the decision-making stage.

Furthermore, within the process view there are different strategic choices that managers should reflect upon in order to conduct proper integration planning. From Birkinshaw (1999), we found a distinction between fast and slow integration strategies, “low road” and “high road”. In the low road strategy, the process is fast and focused on cost cuttings and short-term efficiency improvements. The high road, on the other hand, is more focused on long-term improvements stemming from proper human integration.

In the following analysis, we will discuss in accordance to Haspeslagh & Jemison (1991) and Birkinshaw (1999) how the case companies are planning and managing their integration. In comparison to the previous phases, we will also here start by presenting findings from specific cases in each company.

### **Findings from Specific Cases**

#### ***Adera Group***

In the Nucleus case, the time pressure was strong and the planning for integration was conducted in parallel with the due-diligence evaluations. In practice, no formal integration programs were set up instead the integration

process was made when the employees got the opportunity to work together in customer projects. The advantage of this method was that the process became cheaper and quicker. An additional advantage of working in projects was that the integration became more genuine since the employees are used to working in such a way.

### ***Framfab***

When Framfab acquired Guide, the time for the decision-making was short and the planning for integration was of secondary importance at that time. When the deal was closed, the integration process started by the integration team working actively by establishing Framfab's norms and values in Guide. For instance, questions concerning salaries, working methods and customers relations were discussed. The integration was further conducted in real projects, where people from both Framfab and Guide could meet and work together. As a result, changes became more natural and at the same time a high level of acceptance for chaos was created. The involvement of management in the case of Guide was limited and the employees conducted most of the integration themselves.

### ***Cell Network***

In the merger between Cell Network and Mandator there was a long wait after the letter of intent was written and the final decision was made. Since the deal was not assured during the wait, it was not possible to exchange information between the companies and therefore the integration could not start. When the integration eventually started, a new structure was created by appointing new managers. In the beginning, the initiative was largely taken voluntary by the employees themselves. In this, process managers and key persons from all levels of the companies were invited to participate. The primary reason for this was to create an opportunity for the employees to come to know new colleagues and managers in an early stage to decrease employee turnover. Top-management was involved in the beginning of the integration process although the operative work was delegated to middle managers. The integration was given three months before the new Cell Network was created, which was perceived as quite short. At the same time, it was not possible to extend the process due to high demand for organisational changes.

### ***PreEra***

In PreEra's acquisition of Ekan and Peperoni, the M&A decision was communicated to the employees before the deal was closed. Hence, the employees were prepared for the integration and the internal integration was realised by both internal development activities and external customer projects. In both cases, employees from both companies were put together in real projects. The reason for this was that the employees were used to working in projects that handle change issues. It was also important to work in projects to be able to integrate the knowledge and develop holistic solutions for the customers. In order to assure sales, there was no time for an isolated and long integration process.

### ***Frontec***

Since the decision-making process is proceeding at high speed, integration questions were not specifically discussed in the beginning. The organisational structure is changed constantly, which makes it difficult to put too much effort on integration issues. In the case of Barent Multidesign, an education program was conducted to create a new organisational structure. Due to high level of change, the integration was carried out very fast. Since the employees always are working in projects, the integration work was also made in this form. The top-management was not involved in the integration, except in the appointment of new managers.

### ***Nexus-Devenator***

In the merger between Devenator and Nexus, the employees at Devenator were informed in advance that the company was going to merge with another company. When the deal was closed the integration process started by designing a new organisational structure, where new responsibility areas were defined. Furthermore, a reference group was constructed to enable the development of an information channel from management to operative level. Since the employees are used to working with change issues in customer projects, it became natural that the employees on their own initiative shaped the integration work.

## **An Analysis of the Integration Phase in the Case Companies**

As mentioned above, Haspeslagh & Jemison (1991) argued that the success of M&As is very dependent on to what extent the management is planning for integration already in the beginning of the decision-making process. In all the case companies, we find that the planning for integration was not of primary importance in the decision-making process. As earlier discussed, the decision-making process is characterised by increased momentum, high demand for timing and involvement of few top-managers. In addition, we stated that although the due-diligence included an analytic evaluation of the deal many of the decisions seem to be taken by strong influences of opportunities, intuition and feelings. Since the letter of intent is written before the due-diligence process starts, the initial decision seems hardly to be changed. Consequently, the concern of planning for integration seems to be of secondary importance in the decision-making phase.

The integration phase seems to also be driven by high time pressure. Four of the case companies show a very high frequency of M&As and the top-management's involvement in one deal is hardly finished by the time the next deal begins. The situation is characterised by that the companies are always before, within, or after an M&A transaction. At the same time, all the respondents realised the importance of integration planning, they do mean that the time pressure restrains the planning for integration.

Because of the high frequency of M&As, top-management may not get the same opportunity to evaluate and follow up the specific transaction before they enter the decision-making of the next. Due to lack of time, some of the case companies are not fully able to make use of their previous experiences from M&A deals. Thus, there seems to be less time to focus on internal effects of M&As.

Another argument among the respondents for not giving enough attention to integration issues, is that the employees working within these companies are used to working in conditions of organisational changes. This is both due to the high frequency of M&As and the general climate of change that characterises the industry. Employees that choose to working within these companies must

be prepared to handle change processes. Furthermore, all the respondents argue that the employees are used to work in customer projects and that they have learnt to live with constant chaos and uncertainty. Hence, it is supposed that the employees within this industry do not need the same level of integration activities as employees in traditional industries.

*“Since there is the high frequency of acquisitions in the new economy, employees develop methods of how the process should be handled. They learn to face situations of change and it does not seem to be strange to be in the middle of an acquisition. It is important to create a situation where the state of change becomes a natural situation and shape a high level of acceptance of chaos.”*

*“The company has a great deal of experience from change projects and the employees are used to meeting changes”*

*“Since the employees are used to working with change issues for the customers, it was natural that they themselves took the initiative to start up integration projects. Consultants are by nature open for changes and if you have strong need for security you should not be a consultant in this industry at all.”*

*“The organisation is restructured every year and we are living in constant change, which we have all learnt to accept. Actually, top-management used to count on the integration turning out by itself, e.g. we take into account that the employees will accept the situation.”*

It could be extracted from the cases that the majority of the managers take for granted that the integration process will turn out properly without any specific integration programs. Therefore, the responsibility for the integration seems to be delegated to the employees themselves. Most of the respondents in our study argued that the employees within this industry have open and constructive attitudes towards changes. Since the employees, in contrast to subordinates in traditional industries, often are consultants, they are not supposed to have the same demand for security and stability. However, one respondent stated that it

should not always be taken for granted that consultants are that open for changes in their own organisation.

As we see from the specific company cases, most of the integration is accomplished by working in real customer projects rather than arranging internal integration activities. The driving force for this behaviour seems to be to integrate people and at the same time combine the services and meet the customers' demand for holistic solutions. It is desirable to, as fast as possible, present a united front toward the company's external environment in order to take advantage of the deal as quickly as possible.

There is no time for developing a protracted process and working out the integration carefully. It is important to very quickly make use of the deal by initiating external projects where employees from both the companies are working integrated. From this, it follows that also here timing and speed seem to be important influencing factors for how integration is carried out. Companies do not seem to have the time to make and carry out a proper plan for how to integrate the human assets.

With respect to time, Birkinshaw (1999) also proposes two different strategies for integration, low road and high road. From the case studies, we cannot identify that the companies are using one or another of these two strategies. On the contrary, they are adopting a mix between them. In accordance to the low road strategy, all the case companies prefer a fast and short integration process. At the same time, it is not driven by a desire to improve internal efficiency, but in short-term to fulfil the demand from the external environment, from the customers. The focus is not on rationalising for decreasing duplication of efforts or increasing internal efficiency to be able to decrease costs. In comparison to the high road strategy, the companies focus on integrating the human assets by letting them work together in external projects. In contrast to the high road, the companies have no possibility to do a slow integration process, since the frequency of M&As and time pressure is too high.

The general pattern from the analysis of the case studies is that also the integration planning seems to be suffering from the strong time pressure. Due

to the high frequency of M&As, the majority of the case companies aim to create short and fast processes. The demand for speed results in the managers not being able to make proper plans for integration in the decision-making phase. Instead, integration planning is often left until the decision-making process is finished and the deal is closed.

According to Birkinshaw (1999), companies seem to adopt a mix between the high and low road strategy for integration. In practice, the integration is mostly accomplished by letting employees from both companies work together in real customer projects. Furthermore, there seem to be very little effort to perform certain internal integration programs.

### **Implications from the Integration Phase**

We found from Birkinshaw (1999) that the nature of the companies' assets highly influences what strategy to choose. If the important assets are knowledge-workers, who have the options to leave for another company, the high-road strategy is preferable. This statement is of special importance in connection to our case companies, since they mostly contain knowledge workers. In the case studies, we found that the crucial issue in the M&A process is to decrease the turnover of employees. Since the value of the acquired company is dependent on the knowledge workers, it is of greater importance to keep the employees.

Four of the companies have experienced that key persons have left due to the consequences of M&As. In some cases, the loss of key persons has also resulted in increased turnover among other employees. In contrast to the process view, the respondents argued that the reason for employees leaving is not only due to inappropriate integration planning. Instead, the employees left because they disapproved of the new organisational structure and the strategic combination. The new and large organisation reduces the power of the single individuals and makes them invisible. An additional aspect is that the individuals might leave in any case since they know their value and demand a high level of personal development.

According to Haspeslagh & Jemison (1991), the employees may resist supporting the deal since it will lead to *value destruction* for them. They mean that every acquisition changes the established order and pattern in both companies. These changes tend to create uncertainty, fear and a tendency toward self-preservation on the part of the employees. As a result, the people who are expected to create economic value for the shareholders may destroy value for themselves. Employees become unwilling to work for the success of the acquisition and may leave the firm.

The reason mentioned for employees leaving the company is that the M&A may lead to a less creative environment for the specific individual. In combination with the employees easily could find new jobs in a very short time, it makes it more difficult for the companies to keep their employees than in traditional industries. Consequently, a proper integration planning should be even more important. This is also stated by all of the respondents when they mean that the key success factor for M&As is to keep the employees. At the same time, the respondents also argue that the decreased loyalty of employees makes it more difficult to persuade opponents to stay.

On the other hand, some respondents argue that if some individuals do not accept the situation the company does not need to take the same responsibility for them since they can easily find new jobs.

*“Internal threats in the new economy are dominated by employees that are not satisfied. The great challenge for knowledge companies will be to keep the personnel and make them happy.”*

*“The great difference according to traditional industries is that employees in the new economy easier get new jobs. Therefore, one does not need to take the same responsibility for the individual needs in the integration process. In this environment employees do not need the same level of stability.”*

*“The strongest threat in M&As is that the company may lose expensive work force, the machines walk out from the factory. This threat is of crucial importance today since many of the employees have an enormously*

*high level of self-confidence and see themselves as very attractive, as many of them sure are.”*

Regarding the problem of *leadership vacuum*, Haspeslagh & Jemison (1991) argue that top-management tends to be highly involved in the very beginning of the decision-making process. When the deal is closed, they often transfer the responsibility to middle management to carry out the integration. In comparison, the top-management in the case companies does not seem to be greatly involved in the integration, neither in the planning or evaluation. Instead, as we stated before, the responsibility seems to be delegated to the employees themselves. Hence, we think that a leadership vacuum may occur due to the top-managers seem to be much more involved in the beginning of the process. Furthermore, Haspeslagh & Jemison (1991) state the problem of *determinism*, which is the tendency of managers to hold on to the original integration plan when confronting unexpected events. This is not a great issue in the case companies that we studied. On the contrary, they seem to be very open and flexible towards changes along the process since there is no set plan that must be followed.

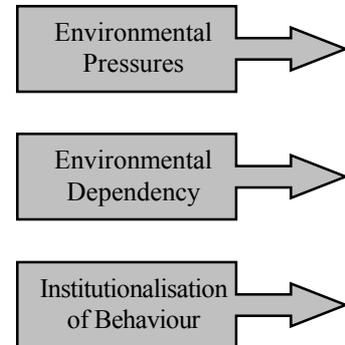
To summarise, it seems not to be possible to explain the case companies' way of managing M&A activities by only focusing on the internal perspective of the process. Instead, it could be extracted through the whole analysis that the different phases in the M&A process seem to be affected by environmental influences. In the next section, we will take a closer look at how the case companies interrelate with their environment. We will discuss what environmental factors that may restrain and influence the managers' ability to take actions.

### **Factors Influencing and Restraining the M&A Process**

In the theoretical discussion, we examined some different perspectives of how organisations are constructed and developed. From one perspective, organisations are constructed by the social interaction between its individuals. Organisations and their structure are products that happen over time. It reflects the organisation's history, groups involved and individuals (Selznick, 1968, Berger & Luckman, 1967). From another perspective, organisations are shaped

by the interplay with their external environment. The environment is assumed to strongly affect the behaviour and survival of organisations (Meyer & Rowan, 1977).

In the following analysis, we will discuss our empirical findings with the help of the influencing factors that we proposed in our theoretical approach. Hence, we will discuss environmental pressures, environmental dependency and institutionalisation of behaviour in the case companies.



### **Environmental Pressures as Drivers in the Case Companies**

Up to now we have not been able to identify any major differences between how the companies are managing their M&As. For instance, we have discussed different arguments such as the importance of fast growth and the use of M&A as the optimal alternative for growth. Furthermore, the reasons for these actions have also been discussed, such as the importance of speed and timing. In the following section, we will put this discussion into another perspective by discussing what environmental pressures may influence the case companies' behaviour. According to Powell & DiMaggio (1991), three different environmental pressures affect the behaviour in organisations. The three different pressures are called coercive, mimetic and normative isomorphism.

The *coercive isomorphic* comes from formal and informal authorities that put environmental pressures on organisations to behave in a certain way. In accordance to our case companies, they do not seem to be that much dependent and influenced by formal authorities like government legalisation. On the other hand, they seem to be very influenced by other institutions like financiers or global customers. As earlier discussed, financiers seem to have made heavy demands for fast growth. In addition, the customers have made demands for global and large suppliers, which are able to deliver holistic solutions. As we identified in the idea phase, the listed case companies are striving to fulfil the demand for growth from financiers and all the case companies seem to be very

customer driven. It seems as if the majority of the case companies have followed the authorities' demand for growth. The companies seem to be influenced by coercive pressures through powerful authorities, on which they seem to be dependent. This is indicated in the following quotations.

*“Today, the share value is a strong paramount for success, our company and the whole industry are permeated with the stock exchange. This means that you must follow analysts and investors' demand for rise in share prices. If the share price is rising, the company is successful. In relation to M&As there is no other alternative, if the market wants growth, wants to acquire, wants to develop holistic solutions or be global, there is only one alternative, to conduct M&As.”*

*“Demand for growth is mostly driven by the owners, to meet the demands from the stock exchange is incredibly important since they in the end create the company's ability to take actions.”*

*“Clients request big players when they hire consultants. Therefore, it becomes important to win the critical mass by growth”*

As we see from the quotations, environmental pressures seem to be important factors that affect the case companies. In connection to what we have discussed in the previous analyses, coercive pressure may be an explanation of why certain motives drive the decision to merge. Consequently, strong institutions, such as customers and financiers, may affect the shape of the M&A process.

Furthermore, *mimetic isomorphism* comes from the uncertainty in the environment and is a powerful force for imitation of other organisations' behaviour. Powell & DiMaggio (1991) argue that this pressure is strong in industries with high technology changes and high environmental uncertainty. As discussed in the idea phase, the uncertainty itself seems to become a reason for conducting M&As. For instance, four of the respondents in the case companies argue that the high level of uncertainty of not becoming a strong player has been a driving force for conducting M&A activities. This uncertainty comes from a set of different sources that also is supported by the secondary data. For instance, the industry and the companies are young, the

pace of growth is very high and the actors seem to still strive to find their position in the industry. As earlier quoted from the interviews:

*“The market is uncertain, which creates uncertainty in the company and among managers. Since nobody knows what the future is going to be, M&As decrease the uncertainty about the future”*

*“If you do not grow fast enough the competitor will acquire you”*

*“Everything is happen with a rapid pace, which demand the ability to change”*

*“Without a strategy of where to go, your competitors will shape the future, without your influence”*

As we see, there is a fear of not becoming a big player. However, the high level of uncertainty may have led to that the companies tend to follow the stream. This can explain why the majority of the case companies are conducting that many M&As. We think this is an indicator of mimetic isomorphism, which influences these companies' behaviour and actions. Consequently, this may be the reason for why the case companies are acting very homogeneously in the M&A process.

From this, it could be extracted that coercive and mimetic pressures are two important factors that increase the numbers of M&As. Coercive pressures come from financiers and customers, while mimetic pressures come from the uncertainty itself that characterises the industry. We think that these factors can explain why the companies within this industry are acting homogenously and seem to be afraid of going against the stream.

### ***Environmental Pressures and Legitimacy***

The question is then why the case companies follow these different isomorphic pressures. Deephouse (1996) argues that organisations that conform to isomorphic pressures, for instance by modelling themselves on other organisations, are recognised by regulators and the public as being more

legitimate. We believe that the search for legitimacy can itself be a factor that drives the companies' behaviour and actions in M&As.

In the case studies, we found that the search for legitimacy seems to be of great importance for the case companies. As discussed, all the case companies seem to strive to become accepted by the audience, including financiers and customers. Furthermore, in order to increase their legitimacy the case companies seem to have met the different pressures since the majority of them behave and act very similar to each other.

The different types of legitimacy described in the theoretical approach are pragmatic, moral, cognitive and regulatory legitimacy. The general notion from our case studies is that all the case companies seem to search for pragmatic legitimacy. According to Suchman (1995), pragmatic legitimacy lies in the self-interest of the audience. Organisations may gain pragmatic legitimacy by directing tangible rewards to the specific audience. This could be compared to the case companies listed on the Stock Exchange, when they struggle to meet the demands of growth from the financiers. In order to survive, companies need access to capital and are therefore dependent on financiers. Since financiers demand growth, companies must grow in order to survive. Furthermore, the companies will increase their legitimacy if they take actions that increase growth since this gives tangible rewards to the financiers through increased share prices. The pragmatic legitimacy could therefore be an explanation for why companies are acting in line with the isomorphic pressures. The discussion is supported by the two companies that were not listed on the Stock Exchange do not show the same need for growth and therefore do not seem to seek the same extent of pragmatic legitimacy from the audience.

Finally, we find no indications that the case companies are striving to achieve cognitive, moral and regulatory legitimacy. Instead, the case companies seem to be strongly driven by a desire to do what is beneficial for the audience's self-interest before doing what is perceived as appropriate behaviour in a larger context. Hence, in the short term, M&A transactions seem to be strongly affected by the companies' striving for pragmatic legitimacy.

## **Environmental Dependency in the Case Companies**

From the discussion so far, we think it is interesting to discuss why the case companies search for legitimacy from their audience. It is rather obvious that it has been of crucial importance for companies to meet the demands from the environment. According to Scott (1981), institutional isomorphism promotes success and survival of organisations. The reason for this is that the creation of legitimated formal structures tends to increase the commitment of internal and external participants.

This can be an additional explanation of why the companies are striving to be more legitimate. It is not only the audience who benefits from the companies following their demands, but also the companies may be rewarded. According to Powell & DiMaggio (1991) legitimate behaviour make it easier for the organisation to attract investors, personnel and customers. If organisations do not follow the pressures, they may reduce their external support. The case companies' actions of meeting the audience's demands may have been a necessity in order to attract investors and customers. To some extent, the companies may have reached their market position by following the audience's requests. Following quotations support this discussion.

*“Actually, growth itself is not that important, but since customers request big players when they hire consultants, we need to grow.”*

*“In general the stock exchange determine the success of the company, which makes growth important to consider.”*

In addition, Pfeffer & Salancik (1978) argue that the organisation's survival both depends on the level of internal and external efficiency. Organisations that do not fulfil the audience demand may not be able to survive even if they show internal efficiency. On the other hand, organisations cannot survive in the long run if they have very strong external efficiency, but without internal efficiency.

As we see from the analysis above, the majority of the case companies seem to focus very much on fulfilling different external demands. Pfeffer & Salancik (1978) state that the most important demands comes from those actors in the

audience who control such resources that are of critical importance for the organisation. This could be compared to the listed companies' request for capital from financiers. If they do not meet the demands for growth, they would not get the needed capital to survive.

In addition, all the case companies have also conducted M&As in order to fulfil the customers' demands for growth. Since the industry is more and more dominated by big players, it seems to be a necessity to follow this request in order to find and keep a position in the market. The focus on external efficiency seems to be very important in this industry in order to be attractive and successful. But, the question is then if this always has been beneficial for the internal efficiency and success in the long run.

Due to the importance of fulfilling the external demands, the companies' internal efficiency may have suffered. The strong focus on external effectiveness is obvious already in the idea phase of M&As, where the motives seem to be very external oriented and the internal benefits are not even discussed. Because of the focus on achieving external efficiency, the internal efficiency may have been put for the future.

Pfeffer & Salancik (1978) argue that traditional companies often put less emphasis on external efficiency and the focus is often to increase the internal efficiency. In contrast, we think that it is the other way around in some of the case companies. External efficiency has been emphasised and the companies may not have had the time to develop internal methods of how to handle the enormously fast growth. Therefore, the internal efficiency has suffered. At the same time, some of the managers argue that due to the high level of organisational change there is no idea in putting much effort on integration and development of a new structure. Because of the fast expansion, new structures will soon be changed anyway. An additional indicator for the lack of internal focus is that the financiers and customers do not seem to have got the expected exchange from the companies' growth. This may be the primary reason for the shift that the companies are expected to meet. The audience has start demanding profits in front of growth.

*“The demand for growth has been very strong, which has led to many companies putting less emphasis on profit. Of course the demand for increasing profit will in the future increase in importance, otherwise everything has only been a play for the audience.”*

*“In general this industry is dominated by motives of gaining a position on the market and increasing the company’s value in order to attract capital. What is different in M&As today, in comparison to one year ago, is a higher demand on profitability and reasonable future results.”*

*“The interrelationship between profitability and growth vary over time. The industry has been extremely dominated by growth, but profitability will become more important when its maturity increases.”*

*“The patience of the stock market will soon be exhausted and it will not longer be enough to just grow, the market wants to see profitability”*

To summarise, it is clearly stated that companies are dependent upon both internal and external efficiency. The focus seems to have been on gaining external effectiveness, although we could perceive a shift to internal efficiency.

### **Institutionalisation of Behaviour in the Case Companies**

According to Selznick (1949), the company’s history and the created structure will affect how people within organisations make decisions, formulate rules and view specific actions. From the secondary data, we see that the case companies in our study have a short history in comparison to companies in traditional industries. Several of them are founded in the nineties and the oldest of them is founded in the beginning of the eighties. All of them have grown with a rapid pace and their core business today has been developed during the few last years. In addition, the majority of the case companies have multiplied the number of employees in few years and the companies are acting in a high level of change. Consequently, the social interaction between individuals in the company have been limited, which may have influenced the ability to develop structures for how to formulate motives, make decisions and manage integration.

Furthermore, the case companies may have created a common understanding of the organisational structure constantly changing. The situation itself has become institutionalised and the continuous change has become a shared reality among the individuals in the company. It has become legitimate even among the employees that structural changes are a normal condition. Consequently, the created institution makes it easier to justify the frequency of M&A transactions. Two examples of the case companies' perceptions of changes are manifested by following quotations.

*“Since there is the high frequency of acquisitions in the new economy, employees develop methods of how the process should be handled. They learn to face situations of change and it does not seem to be strange to be in the middle of an acquisition. It is important to create a situation where the state of change becomes a natural situation and shapes a high level of acceptance of chaos.”*

*“The organisation is restructured every year and we are living in constant change, which we all have learnt to accept. Actually, top-management used to count on that the integration will turn out by itself, e.g. we take into account that the employees will accept the situation.”*

As we see, this perception may also affect the way of handling the M&A process since the managers do not see changes as a threat. We have also identified this pattern in all six case companies where the managers do not seem to be afraid of using M&As for growth due to the organisation accept changes. Furthermore, it is argued that changes are not perceived as something strange and that change itself has become a normal condition. This, in combination with the short history of the companies, implies that structural changes have to some extent become institutionalised. Hence, M&As become a natural step in the companies development and may not be seen as something frightening.

In addition to this discussion, Meyer & Rowan (1977) also mean that the companies' interplay with their environment affect and influence the structural characteristics of the organisation. External belief systems and social structures in society make up broader social institutions. Meyer & Rowan stress the

importance of rationalised myths and shared belief systems in the environment as the primary force for creating organisational forms. This is confirmed by what we stated earlier in the analysis; environmental pressures, seeking for legitimacy and the environmental dependency have been identified as important drivers for the case companies' behaviour.

Furthermore, we think that the homogeneity in the outspoken motives and behaviour are not a coincidence, but rather a shared assumption among the managers in the industry. For instance, all companies stated the need for fulfilling financiers' or customers' demand for growth as an important motive for conducting M&As. In accordance to Meyer & Rowan (1977), we believe that these common shared assumptions may be a widespread rationalised myth in a broader institutional context, which has become shared among managers, customers and financiers. Nevertheless, we also find that the rational myth is changing today. In order to satisfy the stakeholders, it is no longer enough to show growth through M&As, companies must also show profit. Today, we seem to meet a shift, the shared rational myth is changing.

To summarise, organisational structures are not only created by the individuals' interaction with the internal environment, but also by the companies' interplay with their environment. Firstly, the short history of the organisation may have influenced how these companies are handling the M&A process. Secondly, the influences and the dependency on the external environment have also created a shared myth of why M&A is important.

Reflecting back to strategies for how to cope with environmental pressures, we have seen through the whole analysis that the case companies follow the demands and expectations from the stakeholders. In the theoretical discussion, we distinguish between the strategic and institutional approach of how companies respond to pressures. It could be argued that the case companies' behaviour is in line with the institutional approach and that they behave rather homogeneously. However, the case companies do not seem unconsciously to act in accordance to the environmental demands. Instead, they seem to be afraid of going against the stream since they realise the benefits of following the different demands. Although, the case companies do not create strategies to

influence their environment, they seem to have chosen the strategy to adapt to its environment. Therefore, we think that it is not only the environment that is “looking in”, but also that the company is “looking out”.

## CONCLUSIONS

*As we stated in the introduction, the purpose of this thesis was both to study how the M&A process is carried out and explain why it is carried out in a certain way by companies operating in the new economy. We will here reflect back on this purpose by making a comprehensive examination of how our case companies were acting in accordance to the process view proposed by Haspeslagh & Jemison (1991). Furthermore, we will extract some themes that illustrate the drivers behind the M&A process.*

### **The M&A Process in the New Economy**

From the case studies, we have been able to identify a set of common patterns of how M&A transactions are carried out by companies in the new economy. All the case companies seem to go through more or less similar phases and their actions and behaviour are rather homogenous. A comprehensive conclusion in accordance to Haspeslagh & Jemison (1991) is that the M&A transaction is not managed as coherent process. Instead, it is often a sequential process consisting of distinct phases affected by a set of different external factors.

In the case companies, the M&A transaction is not managed as an integrated process. The idea to acquire is based on strategic evaluations, intuition and opportunities that appear. In combination with high demand for speed, timing and secrecy in the decision-making process, it becomes important to as fast as possible close the deal. There is no time for making any deeper evaluations and plans for how to carry out the integration. Instead, the integration planning is conducted later in the process when the transaction is assured. The high frequency of M&As results in that top-management is mostly involved in the beginning of the transaction. When the transaction faces the integration phase top-management is often engaged in the next deal and therefore the integration work is left to middle managers or to the employees themselves. In addition, the time pressure is strong and business conditions are continuously changed. As a consequence, the different phases seem to be managed quite sequentially and the interrelationship between the idea, decision and integration is vague.

Consequently, the M&A process in the case companies could be described more as what Haspeslagh & Jemison refer to as the conventional view, where M&As are a result of a sequential process. In contrast to the process view, the decision-making process is focused on taking advantage of strategic possibilities that occur to be able to grow and fulfil the environmental demands. Instead of planning for how to create value for the transaction in the beginning, the companies seem to have a more intuitive and opportunistic approach. Because of the high demand for change and speed in the business climate, there seems to be no room for managers to stop and reflect upon previous experience in order to develop a more integrated and coherent process.

The planning for value creation seems to become more difficult in the new economy since the business climate is rapidly changing. The possibilities to plan for and evaluate a specific transaction decrease since companies are always before, within or after a transaction. Hence, due to the characteristics of this industry it may not be possible for the companies to adopt and act in accordance to the process view presented by Haspeslagh & Jemison.

## **Characteristics of the M&A Processes in the New Economy**

We believe that the behaviour and actions of the case companies cannot only be explained by new market conditions such as increased time pressure, demand for timing and new business rules. Instead, one must go behind these factors in order to identify and understand the underlying drivers in the companies' internal and external environment. Hence, by the support from our case studies we believe that the logic behind the M&A process in the new economy, in comparison to traditional industries, can be explained by three themes. These are the strong uncertainty, pragmatism and environmental dependency.

### **The Uncertain M&A Process**

We have found several different forms that manifest the uncertainty characterising the new economy. Since nobody knows what the future is going to be, managers are afraid of "missing the boat". In addition, the talks about the emergence of a new economy and new ways of doing business have themselves had strong impact in spreading uncertainty among companies and managers in

the industry. In comparison to traditional industries, it seems to be more important to take some action than take no action at all. In order to investigate and find a position in the unknown, one must be open for making mistakes and taking wrong actions.

At the same time, the strong uncertainty seems also to result in homogeneous behaviour, where the managers tend to follow and behave like other companies by going with the stream. The uncertainty may be reduced if actions are taken in line with other companies' actions. By following others, the uncertainty of taking the "right" decision will decrease, it is easier to follow than lead the exploration of the unknown.

The uncertainty has further created some implications for how our case companies take actions and consequently how they are managing the M&A process. Due to the uncertainty, the process tends to be driven by factors that are more mimetic than analytically evaluated. Among the case companies, this is indicated by decisions are taken more by intuition, feelings and opportunities than analytic evaluations. As a result, it may become easier to justify decisions if the company acts in accordance to other companies in the industry. Thus, the strong uncertainty in the industry may strongly affect the companies' actions and behaviour in the M&A process.

Furthermore, we think that the imitation of behaviour facilitates fast decisions since the uncertainty for taking wrong actions decreases if the company follows the stream of competitors. When the managers do not use the same range of facts for taking decisions, the number of alternative actions are reduced and the process tends to be rationalised. The rationality may lead to a limited resource allocation style, which in turn makes it possible to make faster decisions. Therefore, the speed in the decision and justification may escalate.

### **The Pragmatic M&A Process**

Another characteristic of the companies within the new economy is their pragmatic behaviour. One explanation for this is that the demands from authorities, which the companies are dependent on, seem to have a strong impact on the behaviour and actions. For instance, the financiers' demands for

rapid growth have put emphasis on short-term tangible rewards. Although the companies strive for long-term survival, the financiers' demand for rapid growth seems to have restricted the case companies from taking actions in a long-term perspective.

Furthermore, the pragmatism is constituted by that managers seem to adopt an opportunistic approach in the decision-making phase of the M&A process. For instance, the idea to acquire does not often seem to be driven by an identified demand from the company, but rather by taking advantages of chances of potential objects that appear. Hence, another explanation of the pragmatic behaviour is that the case companies must take advantage of opportunities that occur. For instance, if the stock value decreases, the deal cannot be accomplished since the payment is often in shares.

A third explanation for the pragmatism is that the companies tend to use M&As as a competitive tool before traditional competitive strategies. Instead of developing their own competitiveness, companies try to buy skilled competitors. Hence, the competitive strategy for the new economy seems to be "co-opetition", rather than competition.

Hence, we believe that the pragmatic approach may be an influencing factor for the shape of the M&A process. The short-term perspective from both the managers and the stakeholders has influenced the process to become more pragmatic than analytic based. In addition, the pragmatic approach has also made it possible for the companies to find support for their pragmatic behaviour since the behaviour has become legitimate. As a result from the pragmatic and short-term perspective, the decision-making process becomes fast and integration planning is therefore often left to the future.

### **The Environmental Dependent M&A Process**

The third and final theme that describes the M&A process is the environmental dependency. This is about the strong environmental influences that affect the companies. In contrast to traditional industries, the case companies are rather young and have short histories, which seem to make them more dependent on actors in the environment. Indicators for this in our case companies are the

strong striving for being attractive, for instance creating a profile that conforms to the audience requirements. This is manifested by the listed companies seem to be more aware of acting in line with environmental expectations than companies that were not listed. As capital seems to be of critical importance, the dependency on financiers may be stronger in this industry in comparison to traditional industries.

In addition, the environmental dependency seems also to be articulated through the case companies meeting the customers' demand for holistic solutions. If the companies cannot meet the request for integrated solutions, they may fall below the critical mass of customers. Hence, the case companies have no other option than delivering holistic solutions and therefore they must grow in order to meet the demand from the customers. At the same time, this is not unique for companies within the new economy since fulfilling customers' demands is a request in all industries. However, in the new economy this demand seems to be a driver for growth and consequently also for accomplishing M&As.

The environmental dependency seems to have created an M&A process that is formed by the companies' audience. In the idea phase of the process, this is shown by the motives often are expressed in terms of strategic benefits for the environment. M&As are seen as appropriate and become justified as long as they increase the environmental effectiveness. Motives for gaining internal efficiency improvements are hardly ever mentioned as reasons for conducting M&As. As a result of the strong environmental dependency, the decision to acquire will become easier to justify since the motives already are well established. This may be an additional explanation for why the companies adopt the limited resource allocation style. Consequently, the process is not viewed as a complicated process but rather as an easy way of fulfilling environmental demands.

## **Broader Understanding of Our Findings**

As we see from our findings, the process is characterised by strong uncertainty, pragmatism and environmental dependency. At the same time, we have also been able to extract a shift where new demands arise and traditional rules are requested also in the new economy. An indicator of this is that the financiers

have started prioritising profitability in front of fast growth. Since we started our thesis work, we have seen a shift in expectations and requirements from the companies' stakeholders. For instance, during the very last months of the autumn, some of the case companies have experienced turbulence and their environment has heavily questioned their behaviour.

Therefore, the relevance in our case studies could also be questioned since several of the interviews were conducted in the beginning of the autumn. We find it is reasonable to assume that if we had conducted the interviews at the end of this year, we would have found some different implications. Nevertheless, even if the investigated industry faces a shift, we still think that our findings give some interesting general implications. These could be useful for creating a broader understanding about the interplay between companies and their environment during the coming years.

The question arises, if the case companies' behaviour and adaptation to their environment are significant for the new economy or just common for all emerging industries in the expansion stage. To some extent, we believe that in all emerging industries where there is a high level of uncertainty and strong demand for growth, our findings can be adaptable. On the other hand, the new economy may represent a unique situation due to the extremely high pace of development in technology and globalisation.

In addition, our findings may also be relevant for mature industries. Increased globalisation and faster information flow may create organisations that are more transparent than companies were a couple of years ago. The companies' stakeholders have got a larger degree of insight and, in combination with the increased globalisation, all companies become forced to respond to different environmental demands in order to survive. Larger insight and increased globalisation enables the audience to make higher demands on companies since they have got extended numbers of opportunities. In the end, companies will emphasise meeting external demands, which may lead to that companies become more formed by the audience's request.

Hence, we believe that the importance of environmental influences is not unique for companies in the “new economy”. Instead, we think that the new economy has only brought companies’ environmental influences to a head. According to changed market conditions, such as globalisation and increased information flow, the transparency in business may increase. The rule of the external environment may also increase for companies in traditional industries. At the same time, traditional rules are also demanded in the companies within the new economy. Consequently, we think that the results of our case studies could serve as some good examples for the increased importance of environmental pressures, also outside the new economy. We believe that the new economy may have been a strong driver for change and in the near future, we will meet stabilisation, where companies must make use of the best thing from both the “economies”.

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## **APPENDIX 1: RESEARCH PROCESS**

The idea of writing a thesis about M&As in the new economy comes primarily from our ambition to find a recent subject. In addition, we have met M&A issues in our course studies during the last year. After we decided to write our thesis about mergers and acquisitions, we conducted several discussions with experts within the field. Apart from some talks with our advisor, we also arranged four meetings with different people from two consultant firms. From the discussion we found, from both a theoretical and practical point of view, that it would be interesting to investigate companies that are supposed to operate within the new economy to be able to understand and explain the high frequency of M&As.

Additionally, we also saw an opportunity to question old routines of behaviour and explore new phenomena that have not been heavily discussed in debates. Since, the M&A process contains several phases we believe it interesting to adopt a broader approach to be able to understand the drivers of the whole process. This was done in order to describe a common pattern of behaviour and identify implications that may be interesting for deeper investigations in future studies. Hence, we formulated a descriptive and explanative purpose of studying how the M&A processes are managed by companies in the new economy.

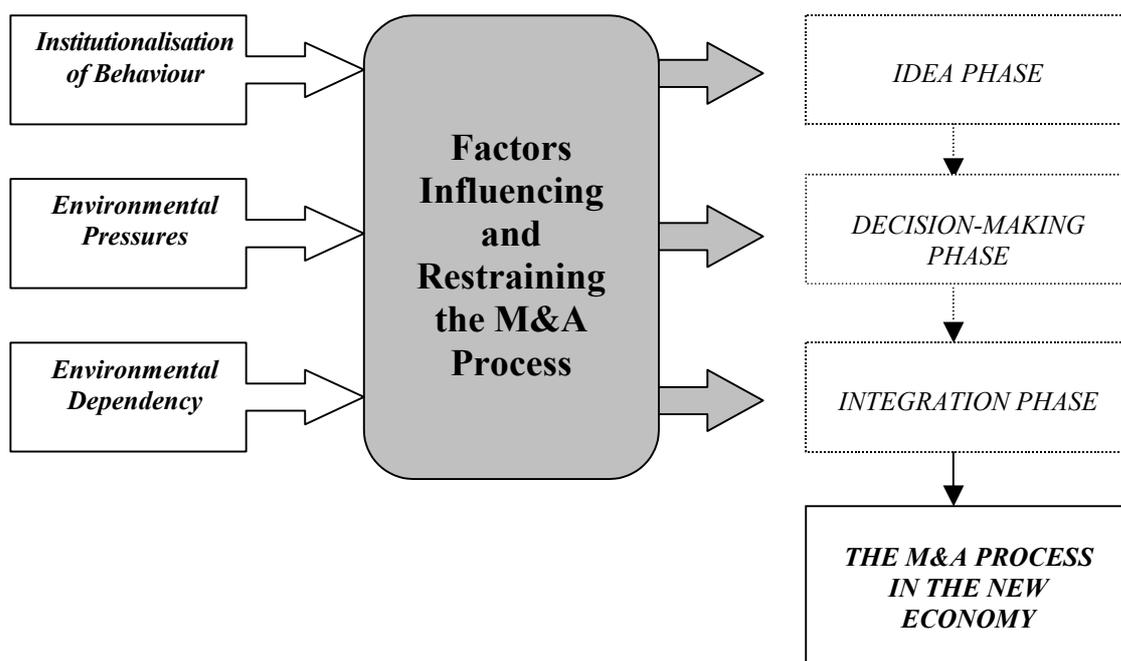
### **Theoretical Approach**

The theoretical approach of this thesis is mainly based on a process view of mergers and acquisitions proposed by Haspeslagh & Jemison (1991). The reason for choosing their perspective was that they put an emergent approach in contrast to the more rational approach of strategic planning. In relation to the new economy we assumed that this dimension was important to use since the new economy seemed to be characterised by a high level of changes. In contrast to the rational model, the process view suggests that the outcomes of an M&A transaction is determined by what actions and decisions are taken through the phases of the process; idea, justification and integration phase. In the process view, the final outcome is assumed to be dependent on the process itself, while the rational planned approach sees the outcome as determined by

strategic and financial evaluation. Hence, we will use Haspeslagh & Jemison's model as a tool for what aspects to study in order to answer our first research question, *how the case companies are managing their M&A processes*.

Furthermore, to be able to explain *why the process is managed in a certain way*, we completed the process view with an environmental approach. Since we think that the companies' interplay with their environment also is a factor that determines the final outcome, we think it is not enough the view M&A transactions as an isolated internal process. Companies need to comply with the interests of different stakeholders, for instance customers, employees and investors in order to get the needed legitimacy for their business. Therefore, we believe that the environmental approach also can be a tool for understanding how companies manage their M&A processes.

From these thoughts we developed a model for our theoretical approach, where we combine Haspeslagh & Jemison's (1991) process view with a traditional institutional theory (Selznick, 1949, Berger & Luckman, 1967 etc) and environmental approaches organisational theory (Powell & DiMaggio, 1991, Pfeffer & Salancik, 1978 etc). The purpose of the model is not to verify any causal relations but it should rather serve as a tool for structuring our theoretical discussions. In addition, it will be the base for the collection and analyses of the empirical data.



### **Selection of Case Companies**

According to our broader approach, we found it more relevant to widen the number of objects in our study than conducting deeper studies into just one or a few cases. Since our aim was to conduct several studies and to identify a broad pattern of behaviour in the companies' strategic decision-making, we decided to adopt a management perspective in our study. For this reason we searched for companies where we could collect data from people in top management positions. Hence, there was no use including several respondents from different levels of the company since we wanted to study how decisions were made and the drivers behind them.

When selecting case companies, we set as preconditions that the research objects should represent both small and large companies and both listed and non-listed companies. We assumed that variety in these two dimensions might also be a reason for differences in to what extent companies are affected by environmental factors.

Since top managers has a great lack of time and due to the demand for secrecy in M&As, it was difficult to find suitable research objects. During the spring and the summer we were in contact with about 15 companies, discussing the possibilities for conducting the studies. When everything turned out in the beginning of the autumn, we had come to agreements with six companies. Two of them had fewer than 100 employees and four of the between 100 and 2,000 employees, at the same time as four of them were listed on the Stock Exchange.

### **Data Collection**

According to Yin (1994), data collection for case studies can rely on many sources of evidence, such as observations, interviews, archival records, documentation and physical artefacts. Yin further states, in order to make use of the advantages of case studies, the investigator should use multiple sources of evidence. In our study, we used two primary sources; interviews and documentation. The reason for us choosing interviews is the strong point of giving well-focused and insightful information about a certain fact. An alternative to interviews at companies may be direct observations, but with respect to the time limitations of this thesis and to companies' demands for

confidentiality in M&A transactions, this was not an option for our case studies. In addition, the approach of our thesis makes demands on using several case companies, which decreases the possibilities for using observations as a method for data collection.

Since M&As are based on strategic decisions in companies, our aim was to get access to interviews with managers at highest possible level in the case companies. In addition, we asked for managers with great experience of involvement in M&As. As mentioned above, this was associated with some problems since the top managers were in great lack of time. Nevertheless, we got access to managers of the executive group in four of the companies. In the other two cases, the persons were highest responsible managers of the companies' Gothenburg departments.

The interviews were based on a qualitative and semi structured method, where we used a set protocol of broad questions on the topic. The questions were formulated by the help of relevant themes in the model that we constructed. The themes were the new economy and its environment, the drivers behind the M&A idea, the decision-making and integration phase. Our ambition for the interviews was to both get access to facts and the respondents' opinions about events. In order to increase the reliability of the interviews, all answers were followed by questions focusing on certain specific transactions. As a consequence, we were also able to build our analysis upon some specific examples. In the first round, we conducted one interview with each of the six managers. The interviews lasted for about 1,5-2 hours and were all tape-recorded.

According to Yin (1994), interviews should always be considered as verbal reports only and a reasonable approach of case studies is to corroborate interview data with information from other sources. In connection to the interviews, we also got access to a set of written documentation from accomplished M&A transactions in the companies, such as strategy plans, internal presentation material and press releases. In addition, we completed these documents with the companies' annual reports and other relevant data from their official home pages. Hence, with the help of secondary data, we

were able to verify the primary data from the interviews. For instance, we compared outspoken facts from the interviews with objectives described in internal documents. Furthermore, by conducting another round of follow-up interviews, we also got the opportunity to clarify and deepen data about some certain interesting questions. Also the follow-up interviews were obstructed by the respondents' lack of time, whereby some of them were accomplished by telephone and e-mail.

Although we did not type the recorded whole interviews word by word, all respondents were sent a copy of the notes we made up. In this way, the respondents got the opportunity to read through and give comments to the empirical data, in order to avoid serious misunderstandings.

### **Strategy for Analysing the Data**

Yin (1994) argues that it is of great importance to have an analytic strategy for conducting case study analyses. He distinguishes between two general analytic strategies, one relying on theoretical propositions and the other beginning with a descriptive approach to the case. In accordance to our purpose we were using a combination of the two general strategies. In a first step, we used our theoretical approach of M&As and made extended case descriptions of how the companies were managing their M&A activities. In a next step, we adopted the strategy of relying on theoretical propositions and interpreted how environmental factors have an impact in the M&A processes in the case companies.

Concerning the analysis of the data Yin (1994) argues that tape-recorded interviews provide more accurate interpretation of an interview than any other method. However, he also stresses that tape recorder should not be used when there is no specific plan for transcribing or systematically listening to the contents of the tapes. Our objective for using tape recorder was to avoid missing important data and creating the possibility to find suitable quotations for our analysis. When we were listening through the recorded interviews, we took notes that we could put into the different themes identified. By doing this we were able to document useful data for our analysis and at the same time sort out irrelevant information. The advantage of developing themes was that it

facilitated our interpretations of the interviews. In the next step we compared the different themes from the different companies in order to identify a common pattern of behaviour. This pattern was then compared to our theoretical model in order to explain the M&A process.

In the analysis process, the secondary data served two purposes. Firstly, it supported facts that we got from the interviews, secondly it broadened our understanding for how M&A activities are perceived. For instance, we could compare outspoken motives mentioned from the interviews with strategic objectives described in the secondary data.

Throughout the whole analysis we present a great deal of quotations from the interviews. The reason for this is to give the reader of thesis a more substantial view of important findings. Quotations are both used to point out some illustrative examples of certain issues and events and to show that the majority of the case companies agreed upon certain matters. However, since we are not supposed to make any company specific conclusions and according to the respondents' desire for secrecy, we will hold the respondents and the companies anonymous in the quotations.

In the thesis, the presentation of empirical data and the analysis are not separated. Instead, data from the case studies are presented when we are analysing the outline of the M&A process, (e g the first three sections in chapter four). In practice, these sections of the analysis are based on the three phases of the M&A process; the idea, the decision and the integration phase. For each of the phases we begin by illustrating a short description of how the certain phase was managed in each of the companies. In addition, we also point out a specific transaction in all the case companies, which will follow through the whole analysis. The primary reason for this was to give the reader a more substantial picture for how the case companies really act and behave. Finally, each of the three sections include a general analysis of what common patterns could be identified in the case companies' way of managing the M&A process, in comparison to our theoretical approach.

The fourth and the last part of the analysis, explains the outline of the process, and does not cover any new empirical data. Instead, we are, in this part, using findings discussed in earlier sections of the analysis in order to put the first part of the analysis into an environmental perspective. The exception to this is a number of illustrative quotations, which are used for supporting some implications discussed.

### **Weaknesses of the Method**

Even though we have tried to do our best to secure the reliability of the study, we realised that there are several weaknesses. We have learnt a lot on the way by making mistakes and we will here briefly present some of them.

One of the weaknesses of our study is the number of interviews conducted. As we had ambition to get access to people in the top-management we were not able to find companies that could give us several interviews. The study may have been better if we had had more respondents from each company. But, at the same time, it may not have given us more knowledge about the M&A process since the interviews conducted show a similar pattern of behaviour between the companies.

Another weak point may be that we, as investigators, have been affected by our external “environment” and therefore unconsciously have ignored some important indicators. Since our aim was to find a general pattern of behaviour, we may have been too focused and neglected divergent indicators, which may have led us to delivered a too generalised picture.

A third important point is that the respondents may not only give us real facts but also more normative statements. As a consequence, the findings from the interviews may sometimes be more about how it should be than how it really is functioning in the companies. However, we have tried to eliminate this problem by asking for specific examples and checking important indicators with the help of different similar questions.