



Università
Ca' Foscari
Venezia

Master's Degree programme – Second Cycle
(*D.M. 270/2004*)

In International Economics and Finance

Final Thesis

Success and Failure of Mergers and Acquisitions

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Ca' Foscari
Dorsoduro 3246
30123 Venezia

Supervisor

Ch. Prof. Giorgio Stefano Bertinetti

Ch. Prof.ssa Elisabetta Cavezzali

Graduand

Catherine Augusta Collier

Matriculation Number 849110

Academic Year

2014 / 2015

ACKNOWLEDGEMENTS

First and Foremost I would like to thank my supervisor Prof. Giogio Stefano Bertinetti for guiding me in writing this thesis.

A special thanks and appreciation to Maurizio Boa, Alberto Corretin, Gabriele, Manuela Calvani, Agnese, Bruno and Gisella Pugliese for their numerous contributions, supports and advices during my accademic studies

And a big thanks to my Mum Emelia C. Kanu, Sisters and brother for their relengthless support and encouragement throughout my studies

Lastly I want to thank my special friend Mercy Onah for her encouragement, advice and support.

Abstract

The phenomenon of mergers and acquisitions has developed to be a highly popular form of corporate development to create growth and diversity. The increase in M&A activity has given rise to the growth of academic research on this topic, and the rapidly evolving nature of M&A also requires constant updating in the research field.

The study of mergers and acquisitions represents a broad interdisciplinary field of research.

Over the past decades, many firms have been implementing strategic mergers and acquisitions to achieve inorganic growth or to boost the corporate overall performance. Mergers and acquisitions are ever present in the corporate world, and they have become an increasingly important part of corporate strategies.

However, not all attempts to undertake a merger between two companies are successful: the reported failure rate in mergers and acquisitions is actually high. *So what are the reasons and factors as of why do some mergers succeed whereas others fail?* The literature in this research will points to several possible answers to this question.

In this thesis the analysis will be base on two merger cases, which involve four companies. Both the merger cases analysed in this thesis include companies with a high level of innovation in products and processes, along with high investments in research and development (R&D).

This study intends to open a new research direction in this field by drawing insights from the literature on technological and organizational innovation for the study of the determinants of mergers' success and failures. The empirical analysis will be focus on the comparison of two different mergers and acquisitions, one that was successful and one unsuccessful case.

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1. Introduction

Mergers and acquisitions is generally a broad phenomenon that many companies have engaged in either within a national or international region. Increase in rivalry in the global market has trigger companies to go globally for mergers and acquisitions a significant vital choice. M&A are the strategic growth mechanism within most companies not only to survive in the competition but to also expand their market share, margins and to be in control or become supremacy in the global market. The pace at which M&A deal are coming up are impressive, which means that mergers and acquisitions has become an important strategic concept for companies to grow at a faster pace. Increase in mergers and acquisitions signify that companies are investing more money to acquire or merge with companies.

M&A deal had gained more attention from researchers in various areas, and the path have been from a wide range of theoretical scheme. In this thesis I have used two M&A cases which encompasses four companies, all theses companies are within industries and sectors with a wide range of innovation in products and operations, along with major investments in research and development (R&D). With the two different M&A cases I have selected one has been considered as a successful and the other as an unsuccessful case in which I will try to gain an insight In order to understand and highlight the similarities, differences and factors that had lead to the outcome of the M&A. Explaining and verifying as of why one of the cases has been considered as success and the other as failed is an interesting topic as well to explore whether the companies have similarities or different motives for undertaking the M&A.

Choosing these different mergers and acquisition with two different outcomes, I will try to outline their motives, strategies and other factors involved. From a general aspect and researches on M&A shows that synergy, growth and management motives are most often the reasons why mergers and acquisitions take place. In order to understand why some mergers fail and some succeed, the merger literature suggests that at the beginning of the merger which is the pre-merger planning and the post-merger integration are crucial in understanding the outcome of M&A deal. In an effort to expand the current literature, theoretical section of this thesis, it will show that the strategic, organizational and environmental fit of the merging companies serves as the main factors to understand and comprehend M&A outcomes.

According to “Lev, 1993; Larcker, 1993” in the 1960s and 1980s Mergers and acquisitions develop into a *trend* known as the “ merger waves”. During this period many companies had engaged in M&A activities, because it had played a significant role in the financial activities of the business environment section as well as it had been considered as an investment strategy. Since then several studies and researches have been carried on M&A and it has gained more attention from tht period until now.

1.1 Research Problem Discussion

Success and Failure of Mergers and Acquisitions

This thesis research is on Mergers and Acquisition that is specifically focus on the success and failures of the deal including motives, strategies, integration process etc at each stage of the deal and the performances at the final stage which is refered to as the post merger integration between the companies.

Several researches shows that there are different ratings on M&A failure but all results proved that the percentage of failure case in M&A deal is extremely high. According to Mark and Mirvis(2001) there are many factors responsible for M&A failure either by buying the wrong company, paying high price as in the fail case of this thesis and making the deal at the wrong time. Furthermore, researchers reveals that the main reason for M&A failure is at the process through which the deal is perceived and carried out. According to Habeck, Kroger and Tram(2000) at the beginning of the M&A deal which is the pre-merger phase, the possibilities for it to fail is 25-30 percent , 18% in the negotiation phase and 52% in the post-merger phase or after the deal. But despite this high indications of failure, companies still continue to see mergers and acquisition as the answer to their problem(Tetenbaum,1999). Armour(2002) defines merger success as maximising shareholer value through the organization's setting of tangible goals(eg double the value of the company every four years) with specific targets. Bert, MacDonald and Herd(2003) stresses that the importance of timing and execution and define M&A success as meeting or exceeding companies expectation with the first two years after change of control or ownership. Brouters, Van Hastenbury and Van den Ven(1998) claim that companies often have several motives for undertaking M&A. Therefore measuring M&A success by examing single financial indicators of performance such as profitability or share value, fail to clearly give a correct picture of

success since it undervalues the achievement of other goals held by companies or organizations. The authors further suggest that the real path to measure or examine strategic performance is counter to the company's set of core success factors. These factors may include financial indicators as well as qualitative objective such as growth, synergy, obtaining need competencies and improving the image of the company. According to Birkinshaw et al(2001) success of M&A can be measured by assessing economic value added, more efficient use of resources and the impact the M&A has on organizational culture. The overall motive to merge with another company is that the merged entity should provide for the fulfillment of strategic goals more quickly than if the companies were on its own(Marks and Mirvis 2001). In this current century were there are so many major changes in advance technologies and increase in globalization, M&A enable companies to be more flexible, influence capabilities, share resources and create more opportunities that could have been impossible.

Epstein(2004) indicates that in some M&A, difficulties or obstacles with the strategic visions, fit or structure of the whole stand out as hindsight that could lead to causes for relative or completely failure for the outcome which can be referred to as a poorly managed, integrated and executed deal. The author further state that companies often do a incompetent or incomplete job of creating a post-merger integration strategy and even an inadequate plan for implementating integration strategy for the entire process. According to Olie(1994) adequate integration process in M&A can be define as the combination of the companies into a single entity that will involve joint effort to accomplish the desired ambitions and targets of the new entity. Integrating two different companies as involves a wide range of process that requires joint efforts in so many areas from the companies that involve According to “Epstein”, he identifies seven elements success of M&A which are: strategic vision, strategic fit, deal structure, due diligence, pre-merger planning, post-merger integration and external environment of the whole deal. Also “De Camara and Renjen(2004)” state some determinants for a successful M&A which are as follows:

- To develop a detailed integration plan long before the M&A is closed.
- To communicate the vision to all stakeholders, that is; the communication messages should be based on a realistic evaluation.
- To create effective and transparent teams; the team should legitimately be unique in the

pre-merger phase from the rest of the two companies, in order to allot private information about the two companies involve and the use of this team enables the companies to finish detailed integration plans before the M&A deal end.

-Commitment of active senior management commitment is critical to accelerated M&A integration

- To soberly evaluate the most excellent processes and systems of the two companies, after to choose and implement the most important ones in the new entity.

-Identify synergies; it is crucial that senior management understand the M&A strategy and communicates it to the executives involved in the pre-merger planning and in post-merger integration process of the M&A.

-Integrate well and intergrate quickly.

-Manage the culture. Firms need to conceive the desired end state, the ideal culture they are looking to create for the new entity.

-Serve the customers despite the merger process.

In this thesis the literature review shows that although the strategy of M&A is very popular and in an increase trend, the percentage success of M&A is very low and is only about 30-50%. Therefore, many researchers in the area of business strategy attempt to identify the variables or factors that influence the success or failure rate. Some of the factors are external to the companies and related to the market or the industry, and some are internal factors related to the organizational culture, the management style, the way of performances in the process, etc. However, the insights of researchers on the variables that influence the success of M&A are still only very partial, due to few primary reasons. First reason is the big differences in every M&A deal, since every company involved in the process is unique and different from each other. The second reason is that there are many variables that influence the success of the M&A but as well their success depends on a combination which is comprised among them, so that the segregation of one variable without examining together the entire intension of the other variables does not always describe the full picture of the outcome of the deal. Researchers have examined so many factors in research studies using different research methods but the fact still remain that until now there is no specific formula or appropriate combination of the factors known to predict the high likelihood of the success of M&A. So therefore, apparently the percentage of failures will continues to

be high. Even some factors with an impact on the increase chances of M&A success that appears to be very logical, such as acquirer previous M&A experience, have not been proven to predict success. Some of the research studies even show conflicting findings (King et al., 2004).

However, the main reason for the success or failure in M&A depends in the way that the integration process is performed between the companies involved. According to Angwin(2004) researchers examined how the integration was managed in general (in all the organizational functions) but focused only on the beginning of the integration period say between the first ninety to one hundred days alone since this is a defined period that is precisely bound in time length. It is easier to analyze what occurs in this short defined period and it can be assumed that it is disconnected from long term outside.

Definitely the integration will or may not end after the first one hundred days and in some cases will even continue more than a year, even limiting the integration to a period of the first one hundred days alone essentially has an implication because the research does not examine the processes that occurred after this length of time but even beyond as well. Thus, it is possible that what happens after the first one hundred days has a greater impact on the success of the M&A. So it is important to examine the impact of the integration throughout the entire period of the integration, not only in the first one hundred days of the process. According to Homburg and Bucorius(2005, 2006) researchers only focus on one organizational function in the companies that are involved in the M&A such as the function of marketing and sales.

The researchers also have limitation since the integration process can succeed in one function and fail in another function, vice versa. It is possible that isolation for the purposes of the research of one organizational function does not tell the whole story of the reasons for the success or the failure. The organizational functions depend on the part of one another like for instance; the success of the integration in the sales and marketing function depends on the integration of other functions, such as human resource, information technology research and development(R&D)etc. So in this light in an attempt to find additional insights into the relationship of M&A success, I chose to focus the entire period from the beginning to the end of the integration process, and on all the main organizational functions such as R&D, manufacturing, finances, IT, and service.

1.2 Definition of Mergers and Acquisitions

Mergers and acquisitions(M&A) are both aspects of corporate finance and strategic management that involve with the buying, selling, dividing and combining different companies and similar entities that can help an organization to grow rapidly in its sector or location of origin as well as new location, without creating subsidiaries. M&A can be define as a type of restructuring some entities or reorganization with the aim to provide growth or positive value creation for the new entity. Mergers and acquisitions are closely connected and sometimes are used interchangeably but there is slight difference between the two. Merger can be consider as a combination of two companies to form a new company or entity whilst an acquisition is the purchase of one company by another in which no new company is formed. Gaughan (2011) defines mergers as “a combination of two corporations in which only the one corporation survives and the merged corporation goes out of existence”. Which means that in a merger, the acquiring company takes over the assets and liabilities of the merged company.

According to Johnson et al. (2006) they define acquisition as “to take over ownership of another organization, firm, company etc.” Sherman (2010) defines a merger as “a combination of two or more companies in which the assets and liabilities of the selling firm/s are absorbed by the buying firm. Although the buying firm may be a different organization after the merger, it retains its original identity”. Further he defines an acquisition as “the purchase of an asset such as a plant, division, or even an entire company” (Sherman, 2010)/ Peng (2006) defines a merger as “the combination of assets, operations, and management of two firms to establish a new legal entity” and an acquisition as “the transfer of control of assets, operations, and management from one firm that is refered to as target to another refered to as acquirer”. In general these distinctions may not matter or be important since the result is often the same; two or more companies that originally had separate ownership are now operating together to obtain some strategic or financial objective. Yet, the strategic, financial, tax, and cultural impact of the deals may be very different in both cases.

The mergers and acquisition phase: according to Buckley and Ghauri(2002) they said that the integration process of two companies comprises three phases: first is the pre-

merger phase where the M&A is planned and initiated, secondly is the merger phase period where the actual deal is been made and finally is the post-merger phase where the integration of the two companies begins. Hebeck Kroger and Tram(2000) further explain that the pre-merger phase consist of strategy development, candidate screening and due deligence.

1.3 Mergers and Acquisitions Waves

From a broad general point of view mergers and acquisitions arose in “waves.” M&A waves are occurred because of changes in the structure or natural effect of the global market in which bigger organizations or companies cease to exist because of these changes and they go out of existence in so many ways either they merged or they acquired by other larger companies. According to Martynova and Renneboog (2008) they analyzed decades of mergers and acquisitions deals and were able to identified six big important waves: which goes or starts from 1890–1903, 1910–1929, 1950–1973, 1981–1989, 1993–2001, and the last one in 2003–2007. The research proves that each wave specifically coincides with a global recession or crisis like for example the last wave ended with the debt or credit crunch crisis in 2007. The variables or reasons that spark the begining of each wave fluctuate over time and there are factors that have clearly induced mergers and acquisition activities from way back in the 19th century which are: industrial and technological shocks, regulatory changes, and credit availability or credit crunch.

The first wave of M&As activity occurred around 1890's and 1900s. At that time companies and organisations in the USA tried to form something like partnerships in their respective industries by creating some sorts of trusts in essence an extreme form of horizontal integration, meaning that companies were highly engaged in horizontal integration during this period. For instance the creation of Standard Oil Company of New Jersey in 1899, United States Steel Corporation in 1901, and International Harvester Corporation in 1902. After some years later the government enforce laws that prohibit anticompetitive practice then acquisition oriented companies started to involve in vertical integration as a means of growth. This type of integration(vertical integration) can best be explain by the oil and gas industry; by then companies that were considered as pure oil exploration businesses eventually switch into refining,

transportation, and ultimately retailing of oil and gas products. In the 1920s was the second wave in which most of the mergers and acquisition that took place were small companies that were left outside the partnership created within the previous wave period. The companies were merged or acquired by each other in order to achieve economies of scale as well as to be able to compete with the prevailing competitor in their various industry or organization. The third wave in the crisis of 1929 marks the end of the second mergers and acquisition wave. Since then and until the 1950's mergers and acquisition activity stays low because of the world war II.

The third wave of M&A's activity starts from 1950's, 1960's, until 1970's during which companies attempted to diversify their revenue streams as well as to reduce their identified riskiness. The swing of this third wave led to the formation of conglomerates companies that comprised of so many unrelated businesses for example the general electric company. However, nowadays capital markets no longer put a premium on highly diversified companies. The share prices of most highly diversified companies are subject to a conglomerate discount due to the fact that equity markets battle to witness the merits of these complex companies.

Moreover, equity markets now desire “pure plays” which means companies that operate in a single industry to highly diversified companies, in big part because understanding and valuing pure plays is simpler than conglomerates. In 1973 the third M&A's wave end with the oil crisis.

At the end of 1970's and starting of 1980's were described by approximately high inflation rates and as a result of high borrowing amounts. During that time in order for companies to remain profitable, most of them find ways to reduce both their financing and operating costs. Meeting a crucial size was usually considered as a means of the industry or company to survive it “shake-outs” that necessarily characterize such economic periods, which give rise to the fourth mergers and acquisition wave. By that time most companies merged with or acquired each other in order to seize the opportunity to have economies of scale associated with larger volume producers. As well, some companies saw mergers and acquisitions as a way to lower their riskiness and cut down their financing costs, which rise up to 25 to 30 % at the end 1970's and beginning of 1980's.

In the 1980's were also marked by deregulation, formation and improvement of new

instruments and markets. An example of this is the “junk” bond market, or the market for bonds issued by companies with low credit quality.

The opportunity of having credit to finance most risky companies and transactions sustain a rise in leveraged buyouts.

Some companies that had bought unrelated businesses during the previous wave took advantage of the growing mergers and acquisition market to sell their badly performing sections and refocus on their core main business. In 1987 the stock market crash and the collapse of most highly leveraged companies put an end to this fourth wave of mergers and acquisitions.

In the 1990s researchers realise another new M&A wave which was considered as the fifth wave. Companies were engaged in M&A activities to have access to intangible assets (such as human capital, R&D, software etc). Also within this wave there was a rise in the number of cross border M&A, meaning that companies were merged or acquired by other nationality. Because of the expansion and development of the global market most companies view M&A as the fastest and less expensive way to operate and be recognised in a foreign territory or another country which automatically allows the company to participate in the global economy or market place. This fifth wave was compelled by the creation of new international trade organisations like the “North Atlantic Free Trade Agreement”, “Mercosur”, “European Union and many more.

Because of these various waves many companies could not endure the economic situations or the overall global trend, for example there were industries and sectors that were affected by this trend such as in the merger case of “British Petroleum and Amoco”, the Pharmaceutical industry and the automobile industry in the case of Volvo by Ford; all these M&A occurred as consequence of the wave. The crisis in the year 2000 signified the end of the 5th M&A wave.

After the 5th wave M&A revived again and in 2003 another new wave occurred which was the 6th M&A wave, this time the trend of the wave was considered as an extension of the past two waves during the 80's and 90's; which involves the leverage buyouts and cross border M&A. Many companies were promoted by equity companies and entity. Companies were engaged in investing into recent asset like private equity as well as diversify globally. This 6th wave collapsed with the global debt financial crisis in 2007

which marks the end of the sixth wave.

1.4 Current trends in Mergers and acquisitions activities

Over the past decades say more than 20 years ago, the trend of mergers and acquisition deal had been continuously growing as well the amount of money spent had increased. This is an evident that companies are engaging more and more in M&A deal and the volume is widely increasing.

Recently from various reports about M&A deals, shows that there is an increment. For example in 2010 the number of deals was approximately 27,000 had grew upto 30,000 deals in the year 2011 and in 2012 there was an increment of 12%. Also the overall global M&A amount of money spent had increased from USD 2.00 trillion in 2010 to USD 3.00 in 2011. In 2013 there was an increase of 24% in the M&A deals which shows that it double the number of deals during 2012.

In 2014 M&A deals rose up to 40, 565 and the amount of money spent increased to USD 3.6 trillion as compared to the previous years; 2010 and 2011.

During 2014 because of better economic environmental conditions, support from joined monetary market, comparably small market risk and absence of economic disturbance etc gave rise to the increase of M&A deals recently. In this period (i.e 2014) the M&A deals in the United States increased upto 55% . Regardless of the vigorous dollar(\$) many european companies like Germany expect a good positive M&A opportunities from the United States of America and there are lots of inward investment on this aspect which had seriously increased .

Eventhough the economies of the european region is in slow-movement, in 2014 the M&A deals in europe had increased to about 50% (nearly a quarter of the total global M&A deals) as compared to previous years. There were lots of cross-border deals between european countries(example one of Germany grocery store known as Conad had acquired Billa in Italy) as well as cross-border deals between non-european countries(for example Asia's investment in European countries) and it was during this year(2014) that europe had engaged higly in M&A activities. This increased trend was noticed in major european markets area, for instance in the United Kingdom, Germany and France had recorded the highest M&A deals, the combination of these 3 countries total M&A deals gives almost 49% of the overall M&A activities in Europe.

According to “Diego Villegas-Sierra” last year 2015, globally there were financial assistances for M&A entrance but there was also a financial support for M&A exit volume. The biggest and recent financial support for M&A entrance was the “Bain Capital LLC'S” buyout of “Blue Coat System Incorporation” on the 10th of March 2015 which was close to about \$2,500 million. Also the biggest financial support for M&A exit year-to-date was almost \$17 billion sale of “Freescale Semiconductor Limited” by the Blackstone group LP, Carlyle group, Permira Limited etc. this implies that there were not so much M&A activities in 2015.

2. Literature Review

2.1 Success and Failure of M&A

This thesis main topic is about the importance of the merger success and failures. It is obvious that by choosing a not successful merger may lead to a secure failure. Consequently what we are interested to know is how to notice the main problem which followed the process of failure. On the other hand it would be equally important to have some more hints on the reasons which lead to the success of a merger. However, the most important issues related to the process of failures and success of a merger are the motives, objectives and also the strategies which are set in the pre-merger planning and at the end it should be reached a comparison between the results before and after the merger. Indeed, the data show that the failures of the merger processes are principally related to the lack of integration problems merger adequacy and the projecting synergies which later appear to be illusory (Sherman, 2010). According to (Cartwright and Schoenberg, 2006; Peng, 2006) it results that, from a study conducted on the managers of the acquiring company's, lower percentage of their acquisitions were not honoring the original objectives and some higher percentage of all M&A were concluded as failures. However it should be emphasized that indeed the process of the M&A are processes and not art or science. Hence, it is essential to comprehend what is the merger itself before analyzing its outcome and result.

Nevertheless, the process of merger and acquisition is accompanied by many potential problems and drawbacks. In addition, generally the problems which appear in the preliminary stages of the process, for instance constraining a deal which should be not reached, are accompanied by mistakes, errors and other misleading planning, therefore the post-merger integration process which is emerged between the companies turns out to become a nightmare (Sherman, 2010).

Indeed, these drawbacks and problems could lead to an increase of the company's financial expenses and on the other hand is difficult even to measure the anticipated benefits and what the financial effects of a merger would be. Generally, the revenue enhancements are lightly seen as the future merger benefits and they are not plainly measured in the merger planning. Therefore, according to Gaughan (2011) the reason why some merger deals fails could be found in the scarce pre-merger planning. In

addition, other authors such as (Jones and Miskell, 2007) relate the high level of the M&A failure to the lack of taking into consideration different factors which accompany the process of M&A in its pre-M&A phase and the post-M&A. In the pre-M&A phase the failures which could be noticed are related to the high level of payments which the companies accomplish in order to realize the M&A, because of the lack of information of hubris. Meanwhile, in the post-M&A could be accompanied by integration problems which should be taken into consideration during the phase of failure analysis. Other problems associated to the processes of merger and acquisitions are related to the stakeholders concerns regarding the fear of losing the jobs, power diminution and responsibility restructure. Furthermore, an important role is played by the department of the human resources (HR) and Waight (2004) states that the a successful merger and acquisition process is not only related to the commercial, economic and financial factors but it also influenced and related to the HR department. Consequently, it is relevant to realize a detailed merger plan in order to implement and achieve a successful M&A process. The plan should comprise elements which are linked to the organizational structure, management structure and products and business processes. Other important factors which accompany the process of merger and acquisition are linked to the experiences of the managers on previous M&A failures or successes they have achieved.

Moreover, the success and failures of the M&A processes are linked to the strategic adaption the two companies reach. This strategic adaption could be expressed as the synergy potential or also written as the $2+2=5$, otherwise, the synergy process is related to the success that two businesses have in operating together rather than operating separately. An example of a successful merger and acquisition could be mentioned the Elco and Electra, in the beginning 1990s in the field of air-conditioning units, which reached the joint levels of sales at a lower costs. By contrast, the acquisition of the Shekem by Elco, which intended to include a food chain and a clothing chain, the synergy which was reached was low. The above example shows that indeed the mergers which are unrelated did not succeed. This result helps us to conclude that the synergetic mergers are recommended and on the other hand the mergers which are not related should be avoided. However, it should be emphasized that even in related mergers the probability of the failure is really high. A research realized by Michael Porter a

professor of the Harvard University, examined what was the percentage of the successes among different mergers, and the main criterion, which was used to determine the success/failure, was the percentage of the so-called organizational divorce within a period of 5 years after this merger or acquisition was reached. The companies which were taken into consideration were from USA and from this research it was concluded that indeed a company which is forced to resell an acquired company after different attempts done, in order to connect the organization and to profit from the synergy, have resulted unsuccessful, factors which lead to “Eject” the company. However the lack of synergy is linked to two main reasons, the first is the non exploitation of the synergy itself because of the lack of the prior planning and the second reason is the lack of the synergy realization which is linked to the non appropriate focus on the human factors, managers and workers of the company acquired. However, according to Chapman (2004) a very important factor which is linked to the successful M&A processes are the process of screening and the pre-planning phases, in addition, a more deeper planning process affects all the M&A process.

On the other hand Firstbrook (2007) underlines the importance of the pre-planning process, whose goal is to reach the strategic adaption between the companies object of the M&A. The M&A which are realized between companies which operate in different nationalities become more difficult because of the high level of incompatibilities they may face which may be linked to the cultural diversities and other strategic incompatibilities. (Mayer and Altenborg, 2008). At the same time, the national political considerations could also highly influence the processes of the mergers and acquisitions which also may lead to another incompatibilities increase (Bruner, 2005).

Peng (2006) notes that it would be important to investigate the organizational adaption of two companies before reaching the process of acquiring a company, in addition, this process should be linked, also, to the screening process whilst considering M&A. Studies show that some 80% of the acquirers have not realized precise studies on the organizational adaption between companies. Meanwhile Pablo (1994) emphasize that the process of management it also of a major importance which could lead to the success and failure of an M&A process. As a result the managers of the companies being acquired could feel unwelcomed and could run over, mainly from the pressure imposed by the acquirer company managers which ask the quick implementation of new

orders and meeting the new performance expectations. However, the managers' behavior is not only influenced by the company size differences but also in connected to the beliefs of the superiority and inferiority. Moving from one employment position, which put the managers from the center of the acquired company to another level where the managers' employment status differ, influences the overall M&A success/failure process. However, according to the Hambrick and Cannella, (1993) the superiority and inferiority towards the companies participating in a M&A are crucial factors which influence the M&A success/failure.

2.1.1 The Concept of Success on Mergers and Acquisition

The most ultimate goal of a M&A is the increase of the firm's value, however, the processes of M&A are associated to the high level of the business risk and the need for further investments and other considerable organizational resources (such as capital and managerial efforts etc). Moreover the increase of the firm's value is aimed to be reached within 2-5 years after the M&A process and this increase appears in the improvement of the company performances such as the increasing of the market share, the increase of the company's sales or the decrease of the company's costs. However, the increase of the firm's value is aimed to be constant and stable for a certain period of time and the main question which the shareholders ask is: What are the sufficient firm performances and the growth in value which pay for the complete M&A costs (comprising the direct and indirect costs)? Generally, as for all the investment processes, it is established a common benchmark which measures the M&A deal profitability or the success by measuring the returns of the investors and comparing them to other shareholders investments opportunities with a similar level of risk. According to Bruner (2001) there would be three possible scenarios appearing from the M&A deals:

A. Value conserved scenario, according to which the M&A costs returns equalize the required shareholders' returns. Therefore, the shareholders profit the level of returns they require and consequently the investment of the shareholder's has a net present value equal to zero, which breaks even in present value.

B. Value created scenario. This scenario would occur when the returns of the shareholder's would exceed the returns which would be required. In this case the investment carries a positive net present value leading to the higher level of wealth

compared to what was required. However, considering the high level of competition between the companies in the market it would be difficult to earn a “supernormal” return on a sustained basis continuously over time. In addition, the process of the M&A aims to reach a successful deal which would break the above rule.

C. Value destroyed scenario, according to this case the returns of the shareholder’s would be less than what was required so would have been better for the shareholders to invest in other investment opportunities with the same level of risk. Indeed, this third scenario is often encountered on the M&A deals.

2.1.2 Factors On M&A Success

Considering that a large percentage of the M&A deals which are successful is lower many researchers have tried to analyze what are the factors which may lead to a successful M&A. Many empirical studies made efforts to identify external and internal variables which would be relevant into the prediction of the M&A successes. However, according to (Shimizu et al., 2004) there is a large gap between what are the results of the M&A deals and the academic researches within this field. Furthermore, King et al. (2004) inspected some 207,000 M&A deals which were performed in the last past decades and the authors concluded that there is not any high level of correlation between several factors, such as the type of the company which is aimed to be acquired, the method of payments for the acquisition, the adaption between the companies being in a merger process, and the chances to reach a successful acquisition.

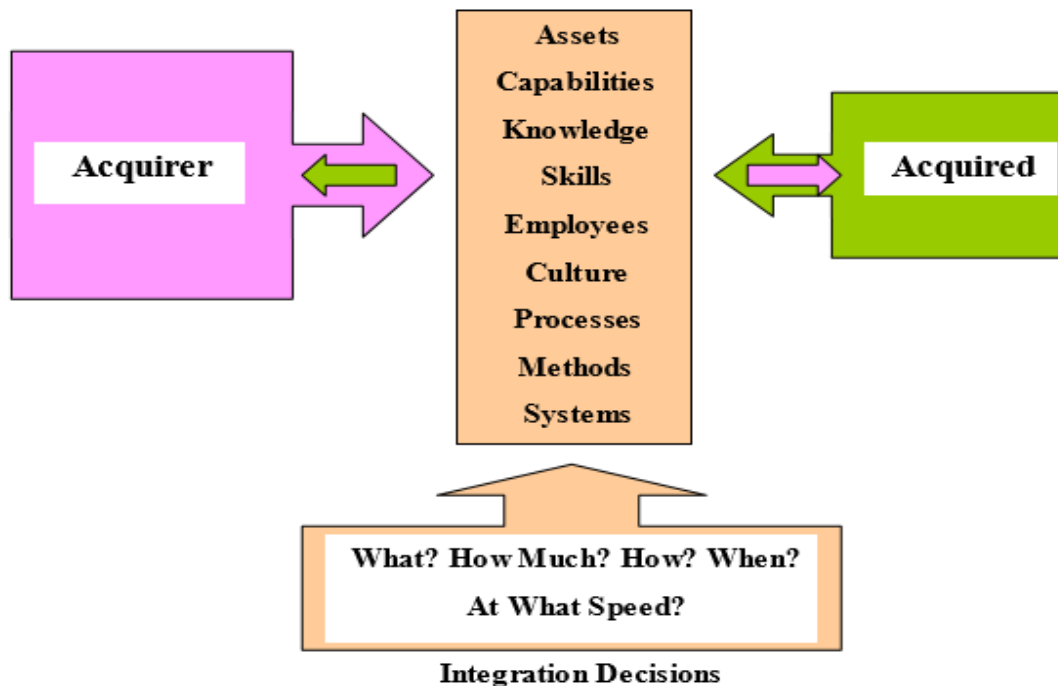
Some of the factors which impact the level success of M&A are:

a. The Acquirer Previous M&A Experience – According to Lubatkin, (1983) a discussion, whether or not the success of a previous M&A influences the new M&A, is being developed. However, is being argued that indeed the success on the previous M&A reached may not lead to a certain success of the new M&A. As an example it could be mentioned that the success which was reached by the Quaker Oat with Gatorade was not repeated with Snapple and the success that Phillip Morris"s reached with Miller did not succeed with 7-Up. On the other hand, other authors such as Heleblian and Finkelstein, 1999 conclude that there is not any relevant and positive relationship between the previous experiences with M&A and the following ones. Overall, this could be explained taking into consideration that every acquisition is characterized by its own specifics, which in fact require different abilities, skills and

manufacturing capacities. Moreover, Hayward (2002) argues that the chances of success are negatively influenced by the previous similar processes of acquisitions. Empirical studies show that previous M&A results help in the new acquisition processes which should or not be undertaken, also the previous M&A results indicate whenever or not it would be necessary to have external consultancy and when a company should use capital. Overall, the M&A previous companies' experiences influence the avoidance of the problems which are mainly related to the correct planning at the first steps before the process of the integration between the companies is commenced (Mallete et al., 2003).

b. Transfer Effects – The transfer effect highly influence the M&A successes. Indeed, the concept of the transfer effect is borrowed by the field of psychology and it describes the relationship between the previous event (in this case before the process of acquisition) and the current event. However the transfer effects may lead to a positive or negative result. Otherwise, the company's result at the beginning of the M&A process highly influence the chances which lead to success. According to Larsson and Finkelstein (1999) argue that the combination of the substantial marketing and production complementarities are one of the major factors which influence the overall success of an M&A process. The following figure represents the types of resources and abilities which transfer within companies in the M&A processes.

Resources Transfer in M&A



c. Combined and Relative Firms Size - This factor is mainly linked to the importance and the influence that the size of a company may have in the success/failure level of an M&A process. In addition, an important research was realized by Moeller et al. (2003) and which included some 12,000 domestic M&A in the USA by public companies for a total value of \$3.4 billion, during a period of time from 1980-2001. The study concluded that on average the companies' wealth rose only by 1.1%, at the beginning of the acquisition announcement, whilst they lost around \$25.2 million of their value. Another study conclusion was that in fact the small companies were able to have more successful acquisition compared to the large companies. Overall, the level of integration reached on the M&A processes is more complex for larger companies compared to the small ones even where they are acquiring a small company. However, whenever the process of M&A are realized for two companies of the same size the chances which may lead to success are smaller compared to other cases when a large company is acquiring a small company.

d. The Quality of the Acquired Firm – according to this factors it is evident that it appear to be easier to succeed whenever the acquired company is of a higher quality, and more precisely if it owns the quality for the senior management. The reasons are:

firstly, the trade-off between quality and the cost of the M&A, considering that there are not real negotiations consequently it would be possible that a company with high level of quality may be acquired at an attractive level of price. Secondly, the managers may not be able to evaluate their own abilities which would help in the performing of the business turning point in the acquired companies where the situation of their business is not good. Third, it results to be easier to perform an integration process within a high quality company which is administrated well compared to another company with a lower quality level (Haspeslagh and Jemison, 1991).

e. The Ownership Type of the Firms – According to Capron and Shen (2004) is difficult to make a distinction between the successes of the M&A realized on the private versus public companies. However, the authors emphasize that whenever a public company is acquired it has a greater value of bargaining in negotiations, compared to a private company, furthermore, the process of one public company is accompanied by a higher level of competition in the bid. Consequently, this process would be associated with an increase of the price which is demanded for the process of acquisition. No sophisticated negotiations on the part of the acquired firm can compete with its success to raise the acquisition price in regards to the impact of the number of competitors for the acquisition. Indeed, in empirical terms, this is hard to measure since its worth on the day of acquisition is not absolute and clear as in a public company according to the value of its stocks.

f. Relatedness – This term is mostly related to the level of similarity existed between the areas of the business activity of the companies which are involved in the process of acquisition. According to Lubatkin (1983) the relatedness strongly influences the processes and the performances of the M&A. Furthermore, Homburg and Buceruis (2006) classify the relatedness into the following two types:

- External relatedness which is related to the level of similarity within the target markets and the positioning of the companies in the market in terms of the level of quality and price.
- Internal relatedness which is related to the level of similarity within the companies" management style, organizational culture, pre-acquisition performances, and strategic orientation.

Moreover, Shelton (1988) realises a further distinction between two types of relatedness

and more precisely:

- Related complementary: where the target businesses provide the acquirer with new products, assets, or skills for product markets currently served by the acquirer rather than with access to new markets.
- Related supplementary where the target businesses provide the acquirer with access to new customers and markets rather than with new assets or products.



According to the model which is represented in the figure above the researcher found out that in situations where the similarity between the companies is high, it is, consequently, reached a higher value during the process of the acquisition. However, the determination of the relatedness within two companies is realized by focusing, at the same time, on at least three of the four following criteria:

- Serving to customers who are similar.
- Engaging in products which are similar.
- Producing technologies which are similar.
- Similar purpose served in use.

Another method of measurement of the relatedness degree is the Standard Industries codes to each one of the companies. According to this method, each of the companies is provided with a SIC which consists of a four digits and according to the company's activity area. Consequently, the level of the relatedness is obtained by the difference or the gap between the SIC codes of the respective companies. As a result, it is evident that the level of the relatedness would be higher for the companies which are realizing

horizontal acquisition, for instance, between companies which come from the same field of production and have the same Sic or the synergy between them seems clearer. Berger and Ofek (1995) also concluded that there is a positive relationship between the level of relatedness among companies and the success of the acquisition. The authors measured that for M&A realized between companies with low level of relatedness experience a loss in value, on average, of 13-15%. By contrast, Chatterjee (1986) point out that the acquisition realized between companies with a lower level of relatedness achieves a higher performance compared to the other acquisition of other companies which also have a higher level of relatedness but do not perform horizontal acquisitions.

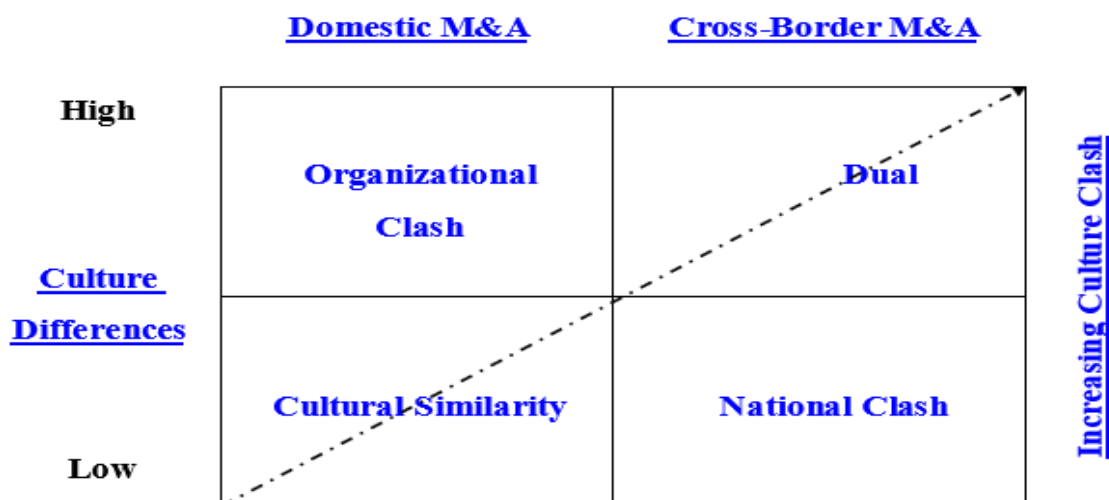
g. Mode of Payment - There are mainly three ways by which the acquiring company can pay for the acquisition process and they are by: cash, stocks, and a combination of cash and stocks. An empirical study shows that on about 1,200 acquisitions, it resulted that the performance of the stock were higher on the firms where the payment was in cash rather than in stocks. Moreover, according to Rappaport and Sirower (1999) the gap in the stock performances could be increased with time. The difference on the success which the processes of the M&A have in relation to the method of payment are mainly related to the high level acquirer's confidence which is shown by paying in cash. In addition, a cash acquisition demonstrates the acquirer's financial strength which, on the other hand, turns out to be an important factor in the M&A transaction analysis.

h. M&A Types (Domestic or Cross Border) The M&A realized within the same country are essentially different from a cross borders acquisition, considering that whenever an acquired company which would be geographically distant, with a different language and national culture, will, therefore, create a more complex challenge for the acquirer and certainly will influence the chances of success (Shimizu et al., 2004). However, Gugler et al. (2002) concluded that, indeed, there is not any essential difference in the performances between domestic and cross border M&A.

i. Culture Differences - Other researchers try to explain the success/failure of the M&A by cultural differences, psychological reasons, the degree of the cultural adjustments and the level of similarities in the managements style within the companies in the M&A process. Weber et al., (1996) argue that there are two main types of culture differences such as the so-called double layered acculturation which is mostly related to the cross borders acquisitions. It is evident that in reality it would be difficult to dissociate among

the impact the impact of a gap between the organizational culture and the impact of the gap in the national culture on the success of the merger, considering that they are inseparable part to the process of the acquisition. The influence that the culture differences have on the M&A failure/success is mainly linked to the problems which may appear from the hostility, lack of cooperation and other conflicts among the employees from different cultures. In addition, Weber et al. (1996) point out that the cross border M&A the national cultural differences predicts tensions and negative attitude of employees towards the course of actions. By contrast, Morosini et al. (1989) conclude that the national culture differences may positively influence the performance of the M&A since it creates a strong mechanism which may transform the routine and would lead to an improvement of the performances on the cross border acquisition. On the other hand, Hofstede (1983) argue that it s the organizational culture which in fact influences the social, political and psychological aspects of doing business. Furthermore, although there have been made major efforts in order to make managers to treat the employees uniformly, regardless of the country, the specific organizational culture of each country encourage managers to nevertheless build an administrative system which would made the right adjustments required for every national culture (Very et al., 1996). In addition, Galley et al. (1996) have developed a model, which is showed as below.

Figure: Organizational and/or National Culture Clashes (Adapted from Galley et al., 1996)



The figure demonstrates the relative impact of the corporate versus the national cultures contravention. The authors conclude that the domestic M&A, with high level of cultural similarity, have, indeed, the highest degree of acculturation, whilst cross border M&A with different corporate cultures, have the lowest degree of acculturation. In addition, Hofstede (1980) defines a national culture by determining a certain level of scores that each national culture receives, in relation to the four dimensions as below:

- Power distance which refers to the degree to which the power differences are expected and, in fact, preferred by a society.
- Uncertainty avoidance which refers to the degree to which the societies are willing to accepted ambiguity and risk.
- Individualism (and its opposite collectivism) which refers to the degree to which the societies emphasize the role of the individual versus the role of the group.
- Masculinity which refers to the degree to which the societies hold traditional “male” values such as competitiveness, assertiveness, ambition, and the acquisition of money and other material possessions.

However, the measurement of the national cultural differences between the two companies is not entirely correct and adequate because there are many factors which influence the natural cultural differences. Indeed, empirical studies show that the lack of cultural fit provides one of the main reasons which lead to the time-wasting conflicts and the damage which could be caused to the businesses (Bijlsma-Frankema, 2003). For example, there were the differences in the culture among Chrysler and Daimler which lead to the M&A failure, consequently, the operations and the management were not successfully integrated and equals, mainly because of the differences by which the Germans and Americans operated. Daimler-Benz's culture stressed a more formal and structured management style, Chrysler favoured a more relaxed, freewheeling style.

j. Synergy Potential (Strategic Fit) – Synergy is another very important factor which influences the process of the M&A. Synergy originates from the resources and the integral abilities which exist in the two companies, in the process of M&A, and which could be reached through the utilization of the opportunities created and which lead to the added value which, indeed, would be greater than the sum of the parts combined (Chatterjee, 1986). This can be seen in the following function:

Expected economic value = Function of (Scarcity of resources, Problems in implementing, Availability of opportunities)

According to Lubatkin (1983), there are three types of synergy which influence the increase of the company's value after the process of the acquisition and they are:

- Collusive synergy which represents the class of the scarce resources which leads to market power. This type of synergy is highly expressed in horizontal M&A.
- Operational synergy which represents the class of scarce resources which leads to production and/or administrative efficiencies. This type of synergy is found more on the related or vertical M&A.
- Financial synergy which represents the class of scarce resources which leads to the reduction in the cost of capital. This type of synergy is principally found in non-related acquisitions or in acquisitions performed by conglomerates.

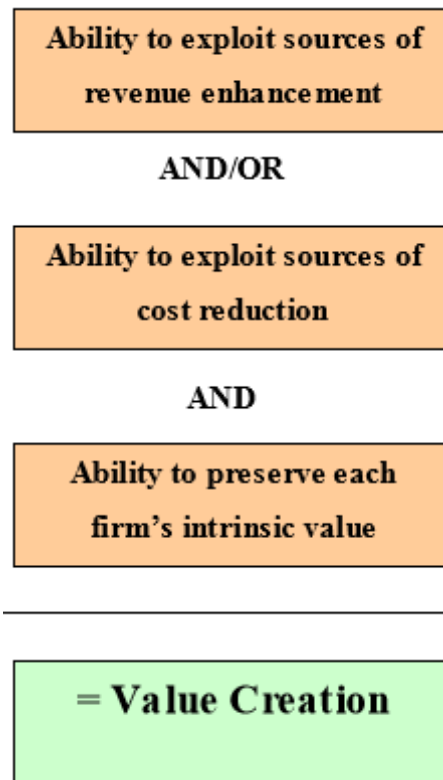
Furthermore, Chatterjee (1986), concludes that, on average, the highest value of an M&A is achieved by the collusive synergy which is created and by financial synergy, whilst, the value of the M&A is less influenced by the level of the operational synergy. Figure below represents the different types of the synergies associated to the M&A types.

Figure: Different M&A Types and Associated Synergies (Chatterjee, 1986)

M&A Type			
Types of Synergy	Related		Unrelated
	Horizontal	Non-Horizontal	
Collusive	Possible	Unlikely	Unlikely
Operational	Possible	Possible	Unlikely
Financial	Possible	Possible	Possible

Another more general approach is that of dividing the synergy between two companies by only two types. The first synergy is highly based on the reduction of the costs after the process of the acquisition and which is more salient in the horizontal acquisitions, whose size advantages influence the reduction of the costs. And the second type of synergy is based on the increase of the incomes after the process of the acquisition, which may be derived from the improvements on the market coverage and other improvements in the innovation abilities.

Figure: M&A Value Creation Scenario (Adapted from Csiszar and Schweinger, 1994)



However, the McKenzie consultancy company maintains on the basis of its cumulative experience that synergy based on the increase of income which is the key to the increase of the profit, since a small increase in the income can compensate for a large failure in the achievement of the estimated saving in the expenses following the merger (Bekier et al., 2001).

k. Post Merger Integration Effectiveness - This is the most relevant parameter and therefore a separate section is dedicated to it in the continuation. In conclusion, besides the large number of researches which attempt to have a better understating of the variables which influence the M&A success, the level of knowledge on M&A is still very low. (Homburg and Bucerius, 2005). Consequently, the researchers turn to another way of examining the factors which influence the failures of M&A, by assuming that finding these factors can help companies increase the chances of the success of the acquisition through avoidance of the same factors.

2.1.3 Reasons for M&A Failures

According to different researches, which are made in relation to the factors which cause the failures of the M&A, there are two main points which explain the reasons which lead to failures of the M&A. The first is connected to the huge amount of money spent on M&A. For instance the high level of payments could be related to the poor negotiations done or to realize the process of acquisition at “all costs”. And the second point is linked to the inevitable and significant problems which appear during the phase of the integration between the different companies Child et al. (2001) and Hitt et al. (2001). By contrast, other authors such as Gadiesh et al. (2001) argue that there are three reasons which may lead to the failures of the M&A: the low level of the strategic understanding process and the vague motivations which lead to the process of the acquisition, lack of the leadership and planned engagement and the very large difference on the culture between companies. In addition, according to Finkelstein and Halebian (2002) the success or failure of a M&A is strongly related to the companies’ managerial view on the chances which lead to M&A success, for instance they managers should be more dubious and unconvinced when they are analyzing the chances of a successful M&A although they may have good indications which may create higher level of synergy between the companies. On the other hand, Schweiger et al. (1993) point out that the chances which may lead to an M&A success are reduced whenever the initial motivations which influence the realization of the M&A are linked to the opportunism or the desire to carry out a transaction whilst there do not exist clear strategic reasons. According to the survey realized on the managers view on the M&A processes, it resulted that there is a lower percentage of the failures start off in the first phase before signing the contract, approximately 18% of the failures commence in the quality of the contract and close to 55% of the failures appear after the signing contract procedures. The loss of the focus on the targeted objective, the deficiency to achieve a concrete plan which would be accompanied by a suitable level of participation and control and, also, the lack of an integrated process, may lead to the failure of any M&A process. Furthermore, below they are mentioned some of the reasons which, also, lead to the failure of the M&A deals:

- **Limited or no involvement from the owners:** Many companies which are found in the process of the M&A prefer to appoint M&A advisors to perform all the procedures linked to merger and acquisitions processes. However, this factor is accompanied by very high level of fees paid. It is evident that the owners of the companies involved in a M&A deal should participate and lead the deal on their own.
- **Theoretical valuation vs. the practical proposition of future benefits:** It happens that during a process of M&A the values of the assets and the look good on paper many not be the most valuable factors whilst the deal is through. A very good example is the case of the Bank of America and its acquisition on the Countrywide.
- **Lack of clarity and execution of the integration process:** The integration which should be reached after the post-merger of the M&A is a very crucial challenge for a successful process of M&A.
- **Cultural integration issues:** As it was mentioned above the cultural integration is a major concern of the M&A procedures, however, the construction of a proper M&A strategy would avoid the cultural differences and would lead to a successful M&A deal.
- **Actual cost of a difficult integration & high cost of recovery: M&A deals** accumulate high level of costs towards the expected integration attempts. However, is important to keep the bandwidth and resources ready within correct strategies in order to afford any surpass which may come through during the process of integration.
- **Negotiations errors:** Financial losses and failures are randomly found during the processes of the M &A and which are primarily a result of the overpayments for an acquisition.
- External factors and changes to the business environment The control of the external factors may be difficult to be reached but the best approach would be that of cutting additional losses which could lead to the total business shutting down.
- The backup plan: Considering that more than 50% of the M&A deal end up failing it would be a very important to build a backup plan which would avoid further losses.

2.1.4 Measurement of the M&A Success

The most ultimate goal of a process of M&A is to create added value for the acquirer company. The value which is added may be achieved in short term, whenever the capital market estimates that the company's performances will get better in the long term as a result of the acquisition realized. Indeed the question which could be raised is related to the measurement of the merger and acquisitions performances. It is accepted that the measurement of the successes of the M&A are linked to the examination of the variables which are changed with the implementation of the acquisition and to compare the values of those variables with previous data whilst the company was independent and the M&A deal was not reached. The variables which could be measured could be financial such as the changes in the value of stocks, the sales turnover, the profits, or could be linked to other variables such as the changes which could have been reached in the brand strength, in the client satisfaction and in the market share. One important indicator which is randomly used in order to measure the M&A success is the percentage on the sales increase after a period of two years after reaching the M&A (Datta, 1991; Haspeslagh and Jemison, 1991). The period of two years is taken into consideration in order to ensure that the impact the integration process is comprised. Furthermore, in order to accomplish a proper measurement it is necessary to compare the values of the post-acquisition results with other similar companies which have not realized any M&A deal during the same period of time. However, the above M&A measurement process is not considered to be completely correct since the process of the M&A implementation lasts from three to several numbers of years. Indeed, this method also includes an impact of the additional variables, aside from the acquisition event itself, which influence the performances of the companies in the post-acquisition period. These variables can be changes in the map of competition in the field, regulatory changes, and changes in the demands or levels of prices in the field. According to Capron (1999) the performance of the companies is measured in longer terms of time and consequently the measurement of the M&A performance will be realized taking into consideration additional variables which are not related to the acquisition. However, the analysis should reach all the aspects which influence the performance of the M&A while the parameters which establish the success and the failure are for certain known and flawless. Another second method which is used in the M&A measurement is to

found the judgement abilities of the companies' managers associated in the process of acquisition and provide information, from them, through the interviews, questionnaires, and to discover whether or not the targets pre-determined before the process of acquisition were achieved or not. The advantages related to this method of performance measurement are related to the possibility given in order to examine many aspects which are linked to the M&A success and thereafter to group in a better way the impact of this M&A deal on the successes from other impacts (Datta, 1991). Indeed, the measurement of the M&A performance is subjective and may be biased on the final conclusions. The bias could be achieved as a result of the "beautify" natural tendency that many managers can derive within a process of M&A. Moreover, according to the research of Bruner (2001), who carried out a questionnaire which was distributed via the Internet to fifty senior managers who were involved in an acquisition, and which aimed to measure the degree of success of M&A. The managers were asked in general about M&A, and on the average they replied that few of the acquisitions produce value for the acquired companies and few of the acquisitions achieve the acquirer's strategic goals. On the other hand, when the managers were asked the same question, which was related to the level of their personal involvement in the M&A process, majority believed that the acquisition in which they were involved created value for the acquirer and less believed that the acquisition achieved the strategic goals. This example makes the difference between what were the facts and what were the managers' subjective opinions on M&A performances. Other method used in order to achieve the measurement of the M&A performance is to measure the failures. An example of this method applicability would be the , the acquisition of the Rover Car Company by BMW which was considered to be a failure, considering that the BMW sold Rover to Phoenix Company due to their lack of success in creating additional value and the severe disappointment of many interested parties who had great hopes for the merger. Another important method of the M&A performance measurement is the determination of the so-called index of success on the acquisition which is realized in accordance to the examination of the values changes of the companies' stock values considering the official declaration of the acquisition. The stock value changes indicate the aggregate analysis of the analysts in the capital market over the nature of the transaction and its chance to succeed mainly in raising the company's' value for its owners. One the

principal advantages related to the use of this method are linked to the immediacy, for instance a few days after the announcement, and the main disadvantage is that this method consists mostly on the prediction of the future success rather than the measurement of the actual success. This method makes possible the measurement of the CAR (cumulative abnormal returns) variable which is linked to the firm's stock price during the merger announcement period. This method presumes that there exists a high level of correlation among the analysts' estimations and the M&A success in the raising company's value over time. According to Hayward (2002) the applicability of this method is as useful as other method applied on the success performance measurement of the merger and acquisition processes. By contrast, the changes on the stocks' value which may result after the acquisition announcement could also be influenced by other factors which, indeed, should be taken into consideration but they are not linked to the process of M&A itself. According to Rosen (2006) research on almost 7,000 acquisitions realized from 1982 to 2001, it resulted that the percentage to which the stocks' value changes in the aftermaths of the acquisitions announcement is related mainly to two factors. The success of the acquisitions of other companies performed in the previous period (a "hot" merger market) has a positive influence on the increase of the values of stock with the announcement, as well as a good general situation of the capital market in the same period (a market characterized by the rise in the stock rates). However, the researchers also found that the impact of these factors is reversible in the long term and that the stock value corrects itself in the continuation. Therefore, firms that performed a poor acquisition in a hot market will have problems in the long term where from a negative change in the stock value, even though if the stock value rose at the time of the announcement.

2.2 Motives for Mergers and Acquisitions

There are different motives which lead to the need to accomplish a M&A, however, one very common approach proposes that the main motive which lead to the M&A is the increase of the stakeholders value. Therefore, the M&A process aims to increase the synergy value meaning that the value of the firm after the process of the acquisition would be greater than the sum of each firm value before the acquisition. In addition, the managers' goal is the increase of the shareholders interest by creating value from an accurate evaluation of the potential M&A deals. Other strategic reason which may lead

to the need for an M&A deal are to profit from the economies of scale, the company's risk reduction, increase the management satisfaction and to have the opportunity to enter in new markets. In this section I will give a broad introduction in different motives and strategies for mergers. Firstly, the most common reasons for merging are the motives which are related to the expansion and growth of the company. As a result, the process of expansion, itself, may guarantee the synergy benefits, for instance when two lines of business complement one another. As it was explained above the process of synergy is obtained when the sum of the part results more productive and more valuable compared to the single components. In addition the financial factors are also to major importances which influence the process of the merger and acquisitions According to Sherman(2010) and Gaughan (2011) the value of the acquiring company could be notably increased in the value of market when it is merged with the targeted company. According to Johnson & Scholes the motives upon which the M&A are realized are classified into three main groups:

- Strategic
- Financial
- Managerial

Let's take a brief look at how the distinction can be made between them.

2.2.1 Strategic motives

Generally, the strategic motives have a tendency to be the most simplest and the transactions they lead are the most influential on the M&A process. However, it should be emphasized that the strategic motives do not guarantee the success of the M&A. Overall; whenever a takeover have a sensible strategic adaption then it could be legitimated the suggestion of the takeover had the appropriate motives. Indeed, a takeover may have more than one strategic motive which is strongly linked to the companies' strategies and objectives. For instance, the takeovers which are realized on horizontal integration are pursued by an increase of both scale and the market share of the combined firm. However, recently, the companies which are involved in the M&A deal rarely justify the reasons which lead to this M&A with the need to become a bigger company. Frequently, the companies involved in a M&A process aim to use the takeover in order to provide new capabilities and competences especially in the

technological field, for instance, Google's takeover on Motorola Mobility, reached in 2011, was entirely about Google gaining access to /or control to a wide variety of patents and other technologies that would enable it to support the Android operating eco-system against Apple and Microsoft/Nokia.

2.2.2 Financial motives

The process of the M&A could not be completely understood without the financial motives which accompany the M&A deals. Indeed, there are also different situations where the most ultimate reason of the M&A deal is financial and not strategic. Likewise, the most relevant challenges of the company being in an M&A deal are primarily linked only to the financial motives. An example would be that of any takeover of a private equity buyer. Overall, the private equity firms are professional investors whose goals are to use the investments funds in the corporate transactions. These can be classified from relatively small-scale management buy-outs to much larger “leveraged buy-outs” where a significant proportion of the finance used is in the form of debt (rather than equity). It should be underlined that the private equity firms have been highly active on the takeovers and their motives are not strategic considering that they are only behaving as financial investors.

2.2.3 Managerial motives

The managers of the corporation are often found under pressure in order to be successful by increasing the value of the company and consequently whenever the growth of the company is not as evident and strong as previously and when the services slow down then the pressure to find other opportunities for economical expansion increase. Therefore, the corporate managers find as a straightforward method the M&A deals (Gaughan, 2011). In addition, according to Gaughan (2011) the companies which enter into M&A deals have already the opportunity to be able to continue the maintenance of the returns at an acceptable level but however they prefer the M&A deals. Meanwhile, Sherman (2010) argues that the M&A motivations are linked to the desire of the companies to transform the corporate identity by leading, through the process of M&A, to new directions and new opportunities. Furthermore, the hubris hypothesis is strongly linked to the managerial motives which influence the M&A processes or also known as the pride of the managers. Consequently, it is randomly

quoted that indeed the main reason behind a M&A deal are linked to the managers personal motives and financial gains (Gaughan, 2011). The belief that the acquirer have in his own management skills and which may lead to the increase of the value of the target acquiring company often accompany the M&A deals. Another approach presumes that the focus of the managers on their personal motives is higher than the motives which are linked to the success of the business as a whole. The failures of the M&A could be noticed by analyzing the “managerial motives”. For instance, an example of the managerial motives is the RBS takeover on the Dutch banking ABN, and more precisely RBS paid £10 billion in order to reach the deal, however the RBS were not able to manage the takeover and they concluded in buying an financial institution which values was less than £5 billion. As a result it was asked the help of the UK government which made possible the uprising of the RBS before being concluded into a disastrous bankruptcy. In conclusion, it should be emphasized that indeed randomly is encountered that the processes of the M&A are leading by managerial motives rather than by strategic motive.

2.2.4 Expansion motives

One of the principal motives for merger is to expand their business operations or line of business. However, it could be simpler for the companies to achieve M&A deals within the same line of business. Very often, the processes of M&A are required in order to profit and have more opportunities in relation to the companies’ advantages compared to the other companies which operate at the same line of business. The so-called additional benefits of growth highly motivate and influence the M&A deals in order to increase the future business potential of the companies. However, whenever the companies are in front of the decision making process they have the opportunity to choose between internal growth, organic growth and the growth which is reached through the M&A deals. In addition, the growth which is reached by the M&A process is considered more rapid compared to the growth which could be reached by the internal procedures. Mergers and acquisitions give the possibilities to the companies to enter in new market, new line of production and to increase the company’s product distributions. Considering that many companies face many difficulties in the process of expanding the “easiest solution” could be the M&A acquisition, however, there are many discrepancies which accompany the process of internal of external expansions. According to Sherman (2010)

and Gaughan (2011) the factors which may lead the need for expansion are linked to the changing technology, fear of the competition, changing of the consumer preferences, pressure to reduce the companies' costs and the reduction of its product's demand.

Furthermore many companies are attracted by the expansion on different and new geographical regions, as a result these companies try to attract more market share from other foreign countries. The process of Globalization has "forced" many companies to achieve M&A, therefore, this market penetration strategy is more effective, in terms of costs, and the expansion reached through the M&A deals are considered to be quicker and less risky. Generally, the companies which have a successful line of business and products, in the national markets, are more available to reach the cross border M&A further success by increasing the profits and their revenues. A study conducted by Castellani and Zanfei (2006) on the multinational companies it was concluded that indeed the multinational companies preferred to expand by both external and internal networks and markets.

2.2.5 Diversification

The process of diversification is strongly linked to the expansion motive and it offers the opportunity to be part of a merger and acquisition process. For instance, companies which are operating in volatile industries may need to undergo on the merger and acquisition processes in order to hedge their possible market fluctuations. The most random diversifications are those accomplished between companies which are found in different states or countries and which are called the geographical diversification. In addition, the diversification could be related or unrelated, the related diversification is linked to those M&A between companies which have a similar product lines, whilst, the unrelated diversification is linked to those M&A deals which do not have the similarities in the product lines but they aim to expand their production in new markets. However, the diversification process is not an added value for the company's shareholders because they have the opportunities to reach a diversification of their portfolios with a lower cost, consequently, the process of diversification is not considered to be a substantial motive for a merger.

2.3 Synergies For M&A

As is was already explained above the process of synergy occurs when the sum of the two companies which have accomplished the process of M&A deal is higher compared to their values separately before the M&A process. According to Damodaran (2005) he stated that “the process of the synergy created by the M&A deals is determined as the value increases which come from the combination of the two companies in order to create a new more valuable company”. Synergies can be reached through cost reductions and also revenue enhancements or even through both simultaneously (Sirower & Sahni, 2006). In addition, one important goal of the M&A deals is linked to the improvement of the financial performance of the company and its shareholders.

Two businesses can merge to form one company that would be capable to produce more revenues compared to what could have been able to be reached independently, or to create one company that is able to eliminate or streamline redundant processes, resulting in significant cost reduction. However, because of this principle, the potential synergy is examined during the merger and acquisition process. If two companies can merge to create greater efficiency or scale, the result is what is referred to as a synergy merge. For example, when the Proctor & Gamble Company acquired Gillette in 2005, a P&G news release cited that "The increases to the company's growth objectives are driven by the identified synergy opportunities from the P&G/Gillette combination. The company continues to expect cost synergies of approximately \$1 to \$1.2 billion and an increase in the annual sales run-rate of about \$750 million by 2008." In the same press release, then P&G chairman, president and chief executive A.G. Lafley stated: "We are both industry leaders on our own, and we will be even stronger and even better together." This is the idea behind synergy - that by combining two companies the financial results are greater than what either could have achieved alone.

Economies of scale are obtained from the synergy processes. For example, merging businesses in the same business line will make possible the elimination of some of the duplicated overhead costs. In addition, the new business will not need two human resources and public relations departments, instead, the best employees will be kept and the rest of personnel and unused office space will be reallocated or no longer used.

Cross-selling is another benefit which is obtained by the synergy process. As a result, whenever some of the products and services of merged companies differ then cross-

selling those products and services to the other firm's customer base can be a cost effective way to increase sales. The ability to effectively meet more of the customers' needs may also increase customer loyalty due to higher customer satisfaction which can occur by effectively providing customers with a broader spectrum of products and services which meet customers' needs. Synergy benefits in relation to the revenue increases are usually more difficult to be achieved compared to the synergy benefits related to decreasing costs. Management also needs to be careful to ensure that potential synergy benefits are not overestimated as this may result in overpayment for the target company. If the expertises of both are amalgamated, it produces synergy, also by applying the rules of synergy effectively; a merger can be made a success. Synergies can take three forms: operating, financial, and managerial.

2.3.1 Operating synergies

It consists of a combination of the acquirer and target's operations. A first type of operating synergies is the revenue enhancement. It includes gaining pricing power in a particular market or being able to increase sales volume by accessing new markets—for example, by leveraging one company's sales force or distribution network, or by selling one company's products to the other company's customers. Another type of the operating synergies is the cost reduction. As mentioned earlier, many companies view M&A as a way to reach a critical size and, consequently, be able to benefit from economies of scale with lower production costs. An acquisition might also generate cost savings in advertising, marketing, or research and development. Revenue enhancement and cost reduction are more found in the cases of horizontal integration and can also play a role in vertical integration.

2.3.2 Financial synergies

Financial synergies are a result of the lower financing costs. Large companies usually have access to a wider and cheaper pool of funds than small companies. The risk reduction benefit could be obtained by the by the beneficial from tax treatment of debt relative to equity. Therefore, the higher the debt level of a company the lower its cost of financing, net of taxes. The empirical data show that companies tend to overestimate the reduction of the risk which could be reached by the tax benefits associated to the M&As. Although financial synergies are a source of value, particularly in the case of

leveraged transactions such as LBOs, they should not be the only motivation for a merger or acquisition.

2.3.3 Managerial synergies

Managerial synergies occur when a poor-performing management team is replaced by a high-performing management team. One advantage which is related to the processes of M&A is that they give the opportunity to remove incompetent managers, in order to improve the target's performance. Unfortunately, not all M&As are motivated by the goal of creating shareholder value. Researches have shown that in some cases the managers are more interested to look after their own interests instead of shareholders' interests. Furthermore, the managers' hubris may cause the overconfidence which later may lead to failures of the M&A processes. Therefore, they tend to overpay for the acquisitions which are aimed to be achieved. In conclusions, some managers prefers to go through acquisitions spree in order to deliver growth and to obtain the earnings targets, however, although the acquisitions may not be strategically healthy or may have negative effects on the company's profitability and ability to create shareholder value.

2.4 Managing the M&A process For Value Creation

Undertaking Mergers and acquisition is very crucial, to purchase the appropriate suitable business or company is very challenging as well as risky to perform this kind of activity. Integrating and managing the entire process is the most important factor to achieve success and value creation of the M&A outcome, meaning that to continuously discover, affirm and achieving this value creation over and over again. Most companies are involve in M&A for diversification and growth both domestically and internationally. There are numerous ways for managing M&A processes. First thing after the deal has been announced is to create the M&A team that involves relevant personnel with a clear procedure of how to carry out the entire process by setting aims and objectives to be achieve, conduct sort of due diligence and how to execute the whole process in order to have a successful M&A.

Secondly there should be a creation of the process strategies like for example a bargaining strategy should be created to uncover, understand the merits and demerits of concerns or problems that may arise during the integration process as well as when the CEO of the company should be involve in the bargaining process.

Thirdly the acquiring company should have an idea of the target business operations that it wish to acquired. In the case of cross-border or international acquisition, the company buying the target should make sure that governance should not prohibit in involving the targets company operations into the new entity so in that light the acquirer have to understand the major areas of the business operations of the target company.

CEO must know that a good M&A process is important for the outcome of the deal, however a good process cannot perfectly assure success but a good effectiveness in managing the process can lead to a success whereas a low or ineffecient process can basically lead to failure in the outcome.

Involving in M&A activity there are priciples and guidelines for company to have at the back of their mind when undertaking such challenges:

To Sketch, Plan and Compose the M&A Process

With the idea of the target company, aims, goals and desired outcome in mind, the acquiring company should be able to know the significance of planning, composition in implementing and executing the M&A process. A sketch work plan with a schedule timetable duty should be created. The acquirer should not also forget about the timing to carry out the deal because the capacity or the way for the the speed of integrating most times is essential so therefore enough timing can enhance to enable proper scrutiny as well as analysis throughout the process. Shared tasks and roles among memebers involve so that each one will be knowledgeable of what and when they are perfoming their roles or carry out their specific task appointed to them. In order to carry out this planing and examinations of the entire process there certains things to consider:

- *People that should be Involved in the Process:* the mistakes some companies normally do is that they often select just few experts for the M&A process which is not good way to carry out a challenging task like the M&A process. Involving key personel management such as managers from both companies, support function units, effective team that will be in charge for managing and integrating the process is highly useful and valuable for the entire process. Even the CEO must be inovled in the process but should not be managed or regulated directly by the CEO alone, instead to involve key players from both companies into the process.

-*The aim of the M&A Investigations or Examinations:* the description of the M&A

investigations should be guided by factors, components or strategies in carrying out the process. To examine the risks that will arise, either risks from the target company, operations of both companies, regulation concerns or taxation problems and so on must be investigated.

The Culture of the Companies

One of the tasks CEO normally does is to develop and manage culture differences during the M&A process. In acquiring or merging with a company, the culture in that particular business may be slightly similar or totally different from the acquirer. Thus it is essential for the company to effectively merge and integrate the cultural differences into one unified culture. Because differences in cultures can create difficulties or problems and a desired outcome may not be realized.

For example, if the target company culture is smooth free flow in their operations and the acquiring company culture is structured rigidly and the flow of information or operations is structured as top to down, there are possibilities of anarchy (chaos/confusions) during the process. In addition, if employees from the target have been used to perform their responsibilities or receiving instructions directly from top management and due to M&A deal they find themselves in a new culture where they will be asked to self-guided in carrying out their tasks and roles. This can frustrate them because since they have been used to a specific way of doing jobs, switching to another different way will be difficult for them, thus it will lead to slow and low performances, hence will hinder the overall output performance of the company, thus the company will find it difficult to achieve its desired value creation. So therefore, to unify the cultures is also important in the process.

Assessing and Evaluating Cross-Border Deals

In the case of cross-border M&A, to enter into new markets can increase the financial growth of a company. But there are difficulties to encounter when expanding or diversifying internationally. Acquiring or merging with another company in another country is more challenging, considering the fact that the acquiring company has no subsidiaries or business operations in that particular country it desired to expand its operations. Examining the path in which the business operation is carried out in the environment of the target company is critical, so there should be thorough assessing and

evaluation of the entire cross-border deal. Improving internal resources with specific professionals can lessen the risks related to the M&A deal. Also to assess employment and labor routine procedures in the new country is vital.

3. Innovation and Organizational Change

The purpose of this survey is to examine mergers and acquisition (M&A) from an innovation point of view and to analyse the cases of success and failure in the context of mergers and acquisitions. In this chapter, the concept of innovation is introduced in a theoretical framework, and a formal definition of the innovation process as well as an explanation of innovation at an organizational level is presented. Since M&A often represent significant organizational changes, different frameworks are outlined, which are aimed at making such changes understandable. This survey employs the so-called resource dependence perspective, which is thoughtfully described in this section, together with other approaches that are used to describe organizational change.

3.1 Innovation

Before starting to explore M&A from an innovation perspective, it is paramount to define and clarify what the term innovation means. The term innovation is commonly employed in a variety of acceptations. The etymology of the term innovation is Latin and it derives from the word “innovare”, which means “to make something new” (Tidd and Bessant, 2008: 16). Hence, in a broad sense, an innovation is a new idea, which can be either a re-elaboration of already existing ideas or an original idea, as long as the public perceives it as new. “The definition of innovation entails that the people involved regard it as something new, although somebody else may consider it a mere imitation of an already existing object” (Van de Ven, 1986: 592). Hence, innovations can be described in terms of new products, new materials, new production processes, which for instance may help increase production efficiency while lowering costs, or otherwise as improved instruments or methods (Kline and Rosenberg, 1986: 278-279). Schumpeter distinguishes between five different types of innovations; “new products, new production methods, new suppliers, entering a new market and organize business in a new way” (Schumpeter, cited in Fagerberg, 2005: 6-7; Fagerberg 2003: 64). In the thematic area of organizational research, innovation is defined as the process of creating and implementing new ideas for problem-solving (Lam, 2005: 123). Mezas and Glynn define innovation as organizational change, in the sense of a non-continuous, uncommon and substantial process that encompasses ideas that are different from the present organizational structure of the firm (Mezas and Glynn, cited in Lam, 2005:

123). Tidd and Bessant (2008) view innovation as the practice of transforming opportunities into new ideas, which are then put into practice. Otherwise stated, innovation can be described as the successful implementation of new ideas, whereas industrial innovations comprehend technical, design, manufacturing, management and commercial activities that are employed in the marketing of a new (or improved) product and in the commercial introduction of a new (or improved) process or equipment. It is possible to classify innovation according to different dimensions – that is, product innovation, process innovation, position innovation and paradigm innovation (Tidd and Bessant, 2008: 16-21). The amount of definitions provided above shows how the concept of innovation is a complex and multifaceted one, for it comprehends the creation of ideas, products as well as managerial aspects. In the context of organizational change analysis, some of the previously given definitions are more relevant than others. Additionally, some of them can be helpful to understand the reasons behind organizational change (cf. Refsnes 2012 for more information).

3.2 Innovation Process and Product

In general, organizations have always had to focus on changing their supply, and how they create and deliver that offering determines if they are to survive and grow. As presented in the section above, new or improved products are considered to be innovations. In Tidd and Bessant (2008) it reveals that “research implies a tight correlation between market performance and new products, new products, in fact, are absolutely necessary in order to capture new market shares and retain them, and also to increase profit in those markets”.

Low prices is not the only success factor to make competitive sales grow, if we consider cases with developed and established products; we need also to be able to offer a variety of non-price factors such as design and quality. Developing new products is an important capability of a company in a market where we find constant changing environment: competitors can introduce new products, that represent a risk for the existing market positions; law and socioeconomic shifts may create opportunities, but also constraints, so product innovation - that can be explained, as Tidd and Bessant (2008) clarified, as changes in the product and services that an organization offers - is a way for companies to respond to those shifts. We find, in both sectors and industries that we analyze, an extensive level of product innovation during the last decades.

If the aim of process innovation is changing the way in which products and services are created and delivered, we can understand the importance of its strategic role. New products are the cutting edge of innovation in the market place, for that, being able to make something no one else can, or to do so in better ways is a crucial source of advantage. The capability to offer faster, higher quality etc. has long been seen as a competitive source (Tidd and Bessant, 2008). For process innovation, as we observed as for product innovation, industries and sectors concerning our study are characterized as areas with a high level of progress.

The collapse, due to the financial crisis, of demand in the global market for luxury cars, right after the deal, forced Tata to refinance to support its investment in order to keep JLR solvent. That operation has been necessary to develop new technology and production methods to access new reservoirs in order to still continue and provide the sectors main products and services. (cf. Refsnes 2012 for more information)

3.3 Innovation Procedures

Drucker (1998) explains innovation as the practice of creating meaningful and specific changes in a firm's business or social performance (Drucker 1998: 3). This definition helps understanding how innovation is managed and performed within a company. Clearly, the innovation process is a complex activity. The employment of a process perspective on innovation and innovation management can be helpful in determining the reasons why organizations decide to innovate and change. The characteristics of the innovation process may vary according to the economic sector, thematic area, innovation type, historical period and country in which it is performed. Moreover, it may exhibit differences depending on the size of the company, its business strategies and its experience in the innovation field. The innovation process comprehends the search for and exploitation of new opportunities with respect to products (new or improved), services, processes, and can be based on technical development, changes in market demand, or both. The innovation process is uncertain by definition, since its cost, performance and the reaction of the public cannot be predicted. Therefore, it is important to investigate how the learning process in firms occurs (Pavitt, 2005). According to Pavitt (2005), innovation can be organized into three different, mutually dependent processes, each of which helps explaining how firms cope with innovation. The first process treats the production of scientific and technological knowledge and

answers the question: how is the knowledge we use produced? An increased trend in the production of scientific and technological knowledge, classified by subject, function and institution has been observed. Three main forms of corporate specialization have been developed. The first encompasses the creation of large manufacturing companies with R&D laboratories, which are specialized in producing knowledge for commercial purposes. The second is the development of many small companies, which are aimed at providing continuous improvements in specialized producers' goods, while the third specialization consists in the separation of tasks between private knowledge, which is developed and applied in firms, and public knowledge, which is developed by universities and similar institutions.

The second innovation process consists in transferring knowledge into working products and answers the question: how is the scientific and technological knowledge put into practice? Scientific and technological advances enable the creation of products of increasing complexity. Scientific advantages and the increased specialization of production have reduced the costs of technological research and practice applied to the transformation of knowledge into products, systems and services. The third process on innovation is represented by the response and influence of market demand, which involves the custom of tailoring products, systems and services to customers' requirements. In a competitive market, firm's technological and organizational methods evolve together with the system. The tailoring of products, processes, systems and services with respect to actual and potential market demand represents a major responsibility for innovation managers, since responding to market demand and satisfying customer's needs involves dealing with disruptive change. Disruptive change is related to a negative aspect of specialization, represented by the risk of a conflict between old and new specialized functions and disciplines within the firm (Pavitt, 2005). The process of innovation in organizations and firms can be explained, in different terms, as four different phases in a management process; search, select, implement and capture. From this perspective, innovation is viewed as a paramount process, which needs to be organized and managed, and it may provide the tools for analysing how different companies and organizations fare on the market. The different phases can explain how successful innovators achieve and maintain technical resources and managerial skills over time, and on how they see innovation as a process that can be

continuously optimized. The process of searching encloses the ways in which organizations can find innovation opportunities. In this phase, searching internal and external environments for threats and innovation opportunities can be seen as an example of strategies and management. Possessing well developed mechanisms for identifying, processing and selecting information from the environment is paramount for successful innovation management. Technological and market monitoring and networking are an example of activities in this phase. The same is true for the practice of redefining the market boundaries of the company. Selecting is about choosing to which of the signals to respond and which to ignore. The purpose of this phase is to transform the different types of inputs into an innovation idea. It is possible that a variety of signals about possible technological and market opportunities reach the firm. The inputs can concern the organization's knowledge and its competence, and can determine how well the available opportunities suit the overall business. Stated differently, the selection criteria are shaped by the firm-specific situation and history. Implementing is about receiving and translating potential ideas from the environment and turning them into reality, i.e. transforming them into a new product or service, or into a new business process, model or organization. In this phase, doing research on technology and markets, helps determining whether or not the innovation is possible. The phase has several core elements, employed for analysing the management of the innovation process and its routines. One of them is the acquisition of knowledge, which involves combining new and existing knowledge to offer a solution to a problem. This way, technological knowledge is generated and technology transferred, along with routines for the employment and management of resources in firms. Another element in this phase is the execution of projects in organizations, i.e. the accomplishment of innovation. Risk-taking and levels of uncertainty are important concepts for the elements during the implementing phase. Launching and sustaining the innovation are two other elements in this phase. Capturing deals with the benefits deriving from an innovation process, regardless of this being a commercial success, market share, cost reduction or a social innovation. Capturing value is a critical theme, and there are several ways to do this. Formal methods like patenting, and less formal methods like the use of tacit knowledge. An inevitable outcome of the launch of an innovation is the creation of new stimuli for restarting the process. Re-innovations build upon earlier

success, but also help improve the next process of innovation in the organization. Capturing is therefore also about experiences and learning, and how to manage the process (Tidd and Bessant, 2008: 19, 55, 79-86).

3.4 Organizational Innovation

The ability of an organization to renovate is a fundamental condition for the successful utilization of creative resources and new technologies (Lam, 2005). On the other hand, the introduction of new technology often suggests complex opportunities and challenges for organizations, leading to changes in managing and the appearance of new organizational forms. As Lam wrote (2005), organizational and technological innovations are therefore intertwined, meaning that introduction of new technology often presents challenges and opportunities that lead to change in managerial practices. Organizational change has been a core concern in organization studies, leading to a broad area of views on what needs to be studied and how this should be done (Van de Ven and Poole, 2005), we can find an example in Schumpeter lecture of organizational changes, considered as one of the factors of creative destruction. The term organizational innovation refers to the creation or adoption of an idea or behaviour new to the organization (Daft, 1978 and Damanpour, 1996, cited in Lam 2005). Lam (2005) identified three different approaches in literature and theoretical frameworks on organizational innovation; theories of organizational design, theories of organizational cognition and learning, and theories of organizational change, adaption and creation of new organizational forms. The first approach focuses on the link between structural designs and the ability of an organization to innovate. There is a long tradition of investigating the links between environment, structures and organizational performance within this approach.

Many studies have shown how particular organizational structures facilitate the creation of new products and processes, especially in relation to fast-changing environments. The second approach focuses on the micro level processes of how organizations develop new ideas for problem solving. It emphasizes the cognitive foundations of organizational innovation, which concerns to the learning and organizational knowledge creation process. This approach gives a micro lens in order to understand the capacity of organizations to create and exploit new knowledge necessary for innovative activities. The third and last approach focuses on understanding whether organizations

can overcome immobility and adapt to strong environmental shifts and technological changes. Innovation is considered as a capacity to respond to changes in the external environment, and to influence and shape these changes. (Lam 2005: 116-117).

All three approaches could be useful in understanding organizational innovation and change, and to discuss the motives and possible results from organizational changes caused by M&A.

3.4.1 Organizational Structures and Innovation

An organization's structure influences its innovation potential. Studies have shown how certain organizational structures facilitate the creation of new products and processes, particularly in relation to rapid changing environments (Lam, 2005). Consequently, the structure of a company gives the possibility to examine the innovation potential in that company. One approach on organizational structure is contingency theory: this approach argues that the best structure for an organization is the one that best fits a given operating contingency, such as the scale of the operation, the technology or the environment (Lam, 2005). One way to understand organizational structure is by using the polar typologies mechanistic and organic organizations. Burns and Stalker developed the terms in the late 1950s, explaining how differences in technological and market environment act on the structure and innovation management in companies. There are many characteristics for the two typologies, characteristics that show management structures and practices that can be responses to the environment. It is important to consider that these forms are polar types at the opposite ends of a continuum, and that we can find a mixture of both in organizations (Lam 2005). The mechanistic organization is characterized by a rigid structure and is to be found in more stable environments. In this organizational form, tasks are divided into specialized, functionally differential duties and individual tasks are pursued in an abstract way that is more or less distinct from the organization as a whole. The precise definition of rights, obligations, and technical methods are attached to roles, and these are translated into responsibilities of a functional position. There is a hierarchical structure of control, authority and communication, and knowledge of the whole organization is located exclusively at the top of the hierarchy. There is also a tendency for interactions between members of the organization to be vertical (Lam 2005, Tidd and Bessant 2008). The organic organization has fluid set of arrangements, and it is

an appropriate form for changing environmental conditions which require emergent and innovative response. In this organizational form individuals contribute to the common aims of the organization and there are continual adjustments and redefinitions of individual tasks through interaction with others. The organic organization is characterized by a network structure of authority and communication, and the direction of communication is lateral rather than vertical. Knowledge may be located anywhere in the network, with the ad hoc location becoming the center of authority and communication (Lam 2005, Tidd and Bessant 2008). Another way to understand and analyse organizational structure is by using the organizational framework of Mintzberg. He proposed a series of archetypes when describing different types of organizations. He identified basic structural configurations of firms operating in different contexts and argued that a successful organization designs its structure to match its situation and environment. The six archetypes described by Mintzberg are: simple structure, machine bureaucracy, divisionalized form, professional bureaucracy, adhocracy, and mission oriented. Mintzberg (1979; cited in Lam, 2005; Tidd and Bessant, 2008) describes the archetypes by their characteristics and their innovations potential that are different for each of the archetypes, while companies are often dominated by one of the pure types (Mintzberg, 1979; Lam, 2005; Tidd and Bessant, 2008). The simple structure is characterized as an organic type centrally controlled by one single person, which can respond quickly to changes in environment, i.e. small start-ups in high technology industries, the innovation potential in this archetype can be read as entrepreneurial and often highly innovative, continually searching in high-risk environments. Weaknesses of that model are the vulnerability to individual misjudgment and resource limits on growth. The machine bureaucracy is characterized as a mechanistic organization with a high level of specialization, standardization and centralized control. Continuous effort is given to make tasks routines through formalization of worker skills and experience. Examples here are the mass production firms. The innovation potential in this archetype is low. Firms are designed for efficiency and stability. They are good at dealing with routine problems, but highly rigid and unable to overtime change. The divisionalized form is characterized as a decentralized organic form in which quasi autonomous entities are loosely coupled together by a central administrative structure. Typically associated with larger organizations designed to meet local environment challenges. The

innovation potential in this structure is characterized by the capacity to concentrate on developing competence in specific sectors. Weaknesses, in this case, include a pull away from central research and development towards local efforts, and competitions between divisions. The professional bureaucracy is characterized as a mechanistic form with high degree of autonomy to individual professionals. Examples of this model could be universities and hospitals. Individual experts being highly innovative within their area of interest characterize the innovation potential in this archetype, but difficulties concerning coordination across functions, domains and disciplines put limits on the innovative capability of the organization as a whole. The adhocracy is defined as a highly flexible project based organization design to deal with instability and complexity. Here, problem-solving teams can be fastly reconfigured in response to external changes and markets demands. Examples here are software engineering firms. The innovation potential is high, with fast learning and unlearning, highly adaptive, flexibility and innovative, while weaknesses here could be lack of control and responsibility to the project at the expense of the wider organization. The mission-oriented archetype is characterized as an organization held together by members sharing common purpose and values. Examples here are voluntary and charity organizations. Here, successful innovation requires energy and a clearly purpose, and a quest for continuous improvement driven from within. Strengths lie in the common purpose and empowerment of individuals to take initiatives. Weaknesses lie in overdependence on key persons. (cf Refsnes 2012 for more information)

3.5 The Organizational Environment

In this thesis the organizational environments and resources will be used for explaining the reasons for merging and the factors that contribute to success or failure in the chosen mergers are analyzed. The environmental contexts are fluid and ever changing, and this makes doing research on organizations in light of their environments complicated. Therefore, it is important to understand the potential role of the environment. Researchers and investigators cannot ignore the effects of environments on organizations, and there is little doubt that the environment has a profound influence on organizations, their structures, their performance and their outcome. Over the past few decades, organizational studies have expanded upwards and outside in order to include

higher and wider levels of analysis and to encompass more types of factors or forces that shape organizations (Scott, 2003). In several organizational approaches, the management of task environments has become a central issue for companies. Scott (2003: 197) defines task management as “those environmental characteristics that are important to the organization, which look like a production system and in particular the sources of input, markets for outputs, competitors, and regulators”. One of these approaches is the resource dependence approach developed by Pfeffer and Salancik. The underlying assumption for this theory on firm’s behaviour and decisions is that “organizational activities and outputs are controlled for by the context in which the company is inserted” (Pfeffer and Salancik, 1978: 39). In this view, the organizational environment plays a fundamental role in understanding firms’ choices and actions. They explain organizational outcomes through a set of interdependent causes and agents. Interdependence can be seen as any event that is caused by more than a single causal agent. In any social system interdependence is given whenever one actor does not entirely control all of the requirements necessary for the accomplishment of an action or for achieving the result desired from the action. Therefore, almost all organizational results are based on interdependent causes or agents. Interdependence is strictly linked to the nature of organizations, the fact that organizations must deal with actors of their surroundings in order to obtain resources that are necessary in order to survive (Pfeffer and Salancik, 1978). Pfeffer and Salancik (1978) argue that organizations could not remain profitable if they were not complying with their environmental requirements. Organizations perform several exchanges and transactions with different companies and groups. The transactions may involve resources of monetary or physical nature, and can include information or social legitimacy issues. Since organizations are not self-restrained or self-sufficient, the environment must be relied upon to provide resources. To keep providing what the organization needs, the external organizations may request certain actions from the organization in exchange. The organization’s interactions with the environment is the cause of the external control. Hence, the organizational behaviour is possibly and almost inevitably constrained. The need to attain resources provokes dependencies between organizations and external elements. How crucial and how scarce these resources are determines the extent of the dependency (Scott, 2003; Pfeffer and Salancik 1978). In this approach, it is assumed that it is impossible to

understand the structure or behaviour of an organization without understanding the environment it operates in. Here, organizations are presented as active, not passive, in determining their own destiny. Organizations and their managers are agents, not passive subjects, of selection processes. They search the relevant milieu for opportunities and threats, attempting to strike profitable decisions and to avoid costly ones (Scott, 2003). Thus the resource dependence approach, views organizations as capable of changing, as well as responsive to the milieu. Managers manage their surrounding as well as their organizations, and organizations have the ability to take action in their environments (Scott, 2003; Aldrich, Pfeffer, 1976). Management is one way to deal with resource dependencies. Innovation is also considered as a way to respond to changes in the external environment, and to help the organization to adjust, influence and determine the environment through changes (Lam, 2005). (cf. Refsnes 2012 for more information)

3.6 Approaches on organizational change

How organizations evolve, adjust and change because of their milieu can also be explained in several other ways. A central debate concerns whether organizations change and adapt because of major technological changes and environmental shifts, or whether radical change in organizational forms happens at the population level through a selection process. The population ecologist perspective on organizations claims that organizations respond slowly to opportunities and threats in the milieu because of strong inertial forces (Lam, 2005). The institutional perspective on organizations argues that a major source of resistance to change is due to the normative enclosed values, norms, rules and beliefs within an organization (Lam, 2005). In this view, change consists of reproduction and reinforcing the existing organization. Evolutionary theories on organization argue that organizations are subject to inertial forces because their routines and competences have become hard to change. In this approach, organizational change is a product of the search of new methods in the environment of an organization's existing methods. Changes on skills and routines therefore happen slowly and steadily. The ability for an organization to adapt to changes is therefore influenced by the speed at which new skills can be acquired to suit the new demands. This perspective is based on the main assumption that organizational change is hard, at least to the speed in which change takes in the external milieu (Hannan and Freeman, 1984; Lam, 2005). In contrast to the different approaches on organizational change mentioned above, there is

the punctuated equilibrium model. This model postulates that organizations are able to commence revolutionary change during times of environmental instability. This model describes organizations as changing through long periods of stability, equilibrium periods, which are characterized by relatively short periods of significant change. These revolutionary periods are marked by fast paced, quantum leaps, with most or all key dominants of the organizational activity will be involved, e.g. changes in strategy, structure, power distribution, and control systems. These periods furnish opportunities for organizations to let loose of structural and cultural inertia, and organization are therefore most likely to introduce changes in times of profitability crises and changing environments. Studies have shown that structural organizational changes occur according to the pattern dictated by this approach (Lam, 2005; Van de Ven and Poole, 2005).

A third approach in this theory of organizational change is the strategic choice perspective, which concentrates on the role of managerial action and strategic choice in creating organizational changes. In this view the organizational change is the outcome of actors' decisions and learning process, rather than the result from a passive environmental selection process. Actors are able to redefine and change structures in ways that disclose possibilities for innovation for the companies (Lam, 2005). Teece, Pisano and Shuen (1997) present a view on strategic management through the dynamic capabilities approach. Their view can be used to analyse organizational change and management, and organizational performance. The dynamic capabilities approach underlines the importance of dynamic change and corporate learning. They maintain that best performing organizations have been the firms and organizations that can show swift responsiveness and quick and flexible product innovation, together with the management capability to successfully coordinate and modify internal and external skills. The approach focuses on two aspects, the changing environment of organizations, and the paramount role of strategic management in adjusting, integrating and reconstructing internal and external organizational competences, resources and capabilities to suit the needs in a changing environment (Teece et al., 1997, Tidd and Bessant, 2008). These skills become strategic assets when they become unique and hard to reproduce by others. Such assets could be technological, financial, structural, reputational, institutional, and the market structure. Decisions about how to invest on

different objects are fundamental for a strategy. In this approach, the decisions on successful competence are highly determined by past choices. Organizations and firms follow a specific path of skills development, a path that determines today's decisions. An organization's opportunities for learning will often be related to previous performance. By paths they refer to the strategic alternatives among which the organization can choose. Where a firm can go is therefore a function of its actual position and path dependency. A strategic challenge is to assess the internal and external skills that are hard to replicate. Competitive advantage can only be attained if the skills and strengths are based on a pattern of routines, competences, and complementary assets, which are difficult to replicate for others (Teece et al., 1997).

3.7 Integrating the M&A Deal

M&A have above been presented from a theoretical and literary point of view in chapter 2. This, together with the theoretical part on innovation in this chapter, provides with a framework for analysing M&A. Previous research have seen little interaction between the two strands of literature. Much of the existing literature and research on M&A are related to the economic performance of companies, or on how companies acquire knowledge, competencies and market shares. This chapter seeks to link M&A literature and innovation literature.

Innovation theories could be used in order to analyse merger motives, merger processes and merger outcomes. In this chapter I will propose a new direction of research to combine the existing literature on mergers and the innovation literature, by proposing some general propositions on merger success and failure. Based on the propositions I will analyse and compare the two merger cases in this thesis. Connecting the literature on M&A and innovation together results in several interesting propositions. First, a central issue on organizational change is whether one can modify the organizational structure or archetype and how to do so. The structure of a company affects and influences the company's ability to innovate. Similar companies will therefore have similar capabilities and features. By changing the archetype of an organization, it may also change its innovation potential, leading to new possibilities, e.g. new products, new markets, new technologies or new organizational forms. Can an organization change rapidly by attaining new technology and skill, or does it require a slow process of

accumulative change within the organization? Also, the structures of the companies involved in a merger may affect the organizational fit between the companies. Lack of organizational fit could provoke an increased need for organizational adjustments and modifications in the merger process. For example, a merger between a company described as a machine bureaucracy and a company being more of an adhocracy would increase the need for adjustments and changes, and therefore complicate the merger. The need for additional changes and adjustments could complicate the merger process, and therefore affect the success of the deal.

General Propositions on Merger Success and Failure

- The first proposition related to similarities of structures: the more similar the company framework of two merging companies, the more possibility of success in the outcome of the M&A. There should be a correlation and relatedness between the companies operations . The framework of companies gives reports as of which part innovation can be delivered among various areas of the company as well as it assist to investigate the differences and resemblance in the way the company schedule their innovation, research and development actions. The overall framework of the company can lead to the path where it can deliver systematic and knowledge of technology as well as in what manner these knowledge can be use to improve the current and future conditions of the company. The four companies in the selected case operated in the same industry and platform so there is a general resemblance in their business operations such as in the products and services used in their daily activities so there could be a possibility of each one of the case to be successful. With these possibilities it will be interesting to examine and verify if there is resemblance or dissimilarity in the framework of the companies involved. As well it is important to assess the external environment where the companies operate. If there is resemblance in the external environment, it could be a significant component to gain strategical fit where the business operation can carried out smoothly. On the other hand the external environment could be a risky component if the M&A is cross-border deal or the companies involve are from different regions.
- Secondly if there is resemblance in the environment such as regulatory system or cultures of the companies involve there is a possibility of success in the outcome of the deal otherwise if there is any dissimilarity then it will lead to failure. Thus it is

significant to evaluate the factors or risk pose by the external environments because it can affect the operations of the M&A deal. There should be strategies created by the company in which they can use as a guide in carrying out their operations. A strategy can be aims, goals or ambitions of a comapany that they will use as a tool to adapt to any unfavourable conditions coming from the exeternasl environment or within the companies involve in order to carry out the business operations smoothly. In my selected cases there are strategies that were created by the acquiring company which helps them to integrate and carried out their business activities. There were startegies on growth (that is how to expand), in the sections of research and development(such as in products,technologies etc).

- The third related to resemblance in strategies of the two companies: if there is resemblace in the strategies of the companies involve there could be a possibility of a smooth path in the companies operations or as I have mentioned in the previous preposition the company can create a unique strategies that will guide them through out the M&A process and even after the deal, thus it will lead to a successful M&A.

4. METHODOLOGY APPROACH

4.1 *Collection of Data*

Generally, the data needed in order to realize a research are provided by using different methods, however, according to (Yin 2009) argue that indeed there are several additional sources which could be used in order to collect data for studies but also the author emphasize that the processes of collecting data are is accompanied by both strengths and weaknesses. In addition, the additional sources which could be used may be archival records, physical objects, interviews and other observations. This thesis will comprise and use the data taken from documentation and archival records. The documentation is used a secondary and additional sources for the data gathering, however, the strengths of documentation used as data sources should be stable otherwise should permit the repeatedly review of the documents. Indeed the process of documentation is not a result of the studies itself but it contains the correct names, and references and the events details. Furthermore, the process of documentation has some disadvantages such as the accessibility to provide information from the documentation.

4.2 *Data Analysis*

According to (Yin 2004) the analysis of the data consists in the examination, classification, and the arrangement of the texts or otherwise it aims to recombine the quantitative and qualitative data concerning a specific study. The author also point out that the analytical strategies for the data analysis could be grouped in three main classes such as: the data analysis which could be relied on the theoretical propositions, the rival explanation thinking and the case description developments. The analysis of the data which is based on the theoretical propositions consists in realizing comparisons with previous studies or theories This thesis will mostly based on this type of data analysis. Furthermore, according to Miles and Huberman (1994) the analysis of the data could be grouped in relation to their consistence with the below concurrent activities:

Data reduction: A process which consists on the selection, simplification, focus and transformation of the data and which will lead to final conclusions achievement.

Data Display: Is a process which takes into consideration the display of the reduced data by organizing them and by achieving simple ways which lead to easier conclusions.

Conclusion drawing/verification: This process is mainly related to the decisions which

are a consequence of the regularities, other configurations and explanations. Indeed, the data which are used in this thesis are analyzed by passing through the three above steps (Yin 2004).

4.3 Approaches to the Research

This study was conducted based on the qualitative research approach. Authors such as Holme and Solvang (1991) define the process of the qualitative research the process when the data are gathered, analyzed and interpreted but could not be quantified. In addition, the authors also argue that the research approach could be suitable when the studies which are being undertaken carry several variables from a few numbers of entities in order to reach a considerable level of understanding of the data gathered and the problem raised. Overall, the qualitative research approach is chosen in order to be coherent with the study purpose which in this case is to profit and have more knowledge on the reasons which lead to success and failures of the M&A.

4.4 Strategy of the Research

The process of the research is strongly related to the necessity of using different methods or different strategies which will lead to accomplish the goal of the research by using, at the same time, complementary and additional methods which lead into the compensation of the limitation which may be brought by the use of different approaches. In addition this thesis is mainly based on the case study research, therefore, the case studies are randomly used in situations where is able to give the contributions on the individuals' knowledge and organizational phenomenon. This thesis will try to shed some more light and to gain in depth knowledge on processes of Mergers and Acquisitions and the two cases to study will help in giving some more reasons on the factors which lead to success and failures of the M&A processes. In addition, (Yin 2004) argue that the case studies serve to demonstrate the clear advantage with regard to the questions answers such as “what”, “how” or “Why” in relation to different events and whilst the individuals being asking the question has not control on changing the situation.

Furthermore, the case studies are considered to be empirical inquiry and where the investigators try to have more hints which may lead to a reasonable analysis of the data. Indeed, the M&A processes are significantly complex and it should be taking into

consideration that this processes involve different companies. However, this thesis will demonstrate the results on two case studies taken into consideration.

4.4.1 Importance of Case Study Methods

There are several advantages which are related to the use of the case study methods and more precisely according to according to George and Bennett (2005) there are four main advantages such as: the opportunity to achieve high conceptual validity, cases studies may lead to the development of new hypothesis; case studies incentivize the examination of the hypothesis and case studies addresses their casual complexity. Furthermore, the use of the case studies helps the investigators to provide some high level of validity and to find out and measure the indicators which are aimed to be studied by the investigators. Differently from the statistical studies which may be influenced by the “conceptual stretching” processes the case studies make possible the conceptual refinements which lead to a higher level of validity even on a small number of cases. As a result statistical researches are often preceded by case study researches which help on the identification of the important variables. On the other hand, case studies offer the advantage which lead to the identification of the variables and hypothesis, however, whenever a researcher asks questions on individuals or documents and gets completely different answers from what were expected therefore the researcher may need to create new theories which could be tested through previous unexamined evidence (Yin 2004).

4.4.2 Limitations

The limitations are linked to the inability of reaching results on particular cases and the incapacity of having real evaluations on the case studies. However, as it was discussed above, contrary to the statistical researchers the case studies researches select on purpose cases which would lead to a particular result. The process of study cases selection on the basis of the value of their most relevant dependent variable can help in the identification of other variables which are not as relevant for the selected outcome. Indeed, the limitation that the case studies offer is that randomly they provide good indicators which lead to the evaluation of the variables which are relevant to the case studies results (Yin 2009). The “degrees of freedom problem” is also applicable in the potential inability to discriminate between competing explanations on the basis of the evidence. Consequently, the case studies have more possibilities in assessing whether or

not a variable is relevant to the result of the study and at what level. Instead, in statistical studies the degree of freedom is significant because it defines the importance of a specific research. However, the lack of the representativeness is one of the reasons which the case studies are criticized. Overall, the case studies try to realize a trade-off between the objectives of the theoretical parsimony, establishment of the explanatory richness, and the maintenance of a reasonable number of cases which are managed to be studied. In addition, “the lack of independence” is another reason which leads to further criticism of the case studies. Indeed, a case study on Merger and Acquisition history of companies could be useful in order to have more knowledge on the reason which leads to the process of the M&A and moreover, to the M&A reasons on failures and successes(Yin 2009) .

4.5 Accuracy

The research methods are examined by the process of accuracy. Indeed the process of accuracy involves two main components such as reliability and validity. The reliability takes into consideration the dependability of the data, which are used in the research and its goal, is to minimize the errors and biases found in a study (Punch 2005) and (Yin 2009). However, according to (Punch, 2005: 95) in a research method question: “if the same instruments were given to the same people, under the same circumstances, but at a different time, to what extent would they get the same outcomes” Therefore, the same outcome would demonstrate that the measurement of the instruments and the techniques are reliable, consequently, in a case study the goal is to assure that different studies on the same case by different investigators at different time would lead to the common conclusions. As a result, according to Krippendorff, (2004) the “Replicability” is considered to be one of the most relevant form of reliability. On the other hand the process of the validity is linked to different dimensions and meanings within the social research. Indeed, the validity data means “how well the data represent the phenomena for which they stand”. Overall, the validity of one research is linked to the entire process as a whole and it consists in the adaption of the different parts of a study. Validity can also be divided into three different dimensions such as: construct, internal and external. The construct validity is linked to the operational measures on the concepts which are being studied. Internal validity refers to the generalization which could be made to the outcomes and the results of the case studies. According to Yin

(2009) the three dimensions discussed above could be considered as tests on the method of the research. Furthermore, there is possible to increase the construct validity for instance the use of different and multiple sources of information during the processes of the data collection may lead to an increase of the construct validity. The second method used on the increase of construct validity is the establishment of an evidence chain on the data collection and the study. The internal validity is mostly linked to the explanation, which should be given by the researcher, in relation to the question of why and how the events led to other events. The inferences are processes which accompany the internal validity and which lead to the incapability of a direct observation of the cases. Meanwhile, the external validity is linked to the process of generalization which involves almost all the case studies and is considered an important barrier on the result evaluation. However, it is relevant to distinguish among statistical and analytical generalizations. In case studies the latter could be used to generalize specific results to more extensive theory (Yin 2009).

4.6 Limitations of the Research

The lack of further sources of evidence could represent a possible limitation of my thesis. However, the wide set of documents in use do not provide guarantee that other sources could not have given more insight on the studied cases. Generally, there is a concern for the potential overreliance on documents as a source of evidence in case studies. As viewed in the chapters above, the discussion of the documents as a source of evidence it is important to remember that all the documents were written for some specific purpose and readers other than a case study. As a result, in this study it is important to be aware that the documents were produced and originally used. The same goes for the archival records used in the study. The question which may be raised is if whether or not the cases and the literature are well connected? Therefore, this lead us to the conclusion that the literature on M&A, innovation and organizational change, and the integrating process needs to be linked to the chosen cases(Yin 2009) .

5. Empirical Data

5.1 Case One: Successful Case of Merger and Acquisition – Acquisition of Jaguar

Land Rover by tata Motors

An Indian company called “Tata Motors” acquired Jaguar Land Rover(JLR) in 2008, a period where there was a huge financial crisis in the economy and there were low amount of investments due to the crisis, thus deal occurred during a bad and unfavourable economic condition. So many bad critics and comments about the deal arose as of why the company engaged in M&A activity at such a terrible period. Due to this bad situation, globally there was a fall in the demand of the luxury that were produce JLR. Because of this bad situation Tata had to spend huge amount in the deal apart from the money that was paid for the acquisition. However, years later after the hard recovery from the bad conditions the outcome of the deal was successful.

Background about the Companies

Tata Motors

In 1868 Tata Group was founded in the period when British officials were based in India at that time. The group is composed of different subsidiaries one of it was the Tata Motors (which was initially called “Tata engineering and locomotive company”) that acquire JLR and Tata motors is one of the biggest automobile company in India. In India, Tata Motors is regarded as the major key player in the automobile industry in the market of the country and it is been considered as the most excellent in terms of manufacturing cars within the industry. In addition in terms of international rating its placed as the fifth biggest truck as well as fourth in position for producing commercial buses globally. During 1954 it began to produce domestic commercial cars such as India's first sports utility car, Tata Safari, Tata Indica, Tata Nano which was recognised as the best cost-effective and efficient global car.

Tata Motors comprises of almost 5,00 engineers, mechanics and experts at R&D centres in most part of the world like in its country India, United Kingdom, South Korea, Spain, Italy and more .

About Jaguar Cars

Jaguar was founded in 1922 as the “Swallow Sidecar Company” by “Sir William Lyons”. Initially, he was manufacturing motorcycles and small cars then later he expand the business in producing commercial cars. Historically, Jaguar had an excellent history background because it had went through so many major companies in the global market. The historical background of Jaguar began in 1966 when it was sold to the British motor corporation now known as the “British Motor Holdings”. It merged with “Leyland Motor Corporation” in 1968 and later in 1984 Jaguar seperated from it then it was listed on the “London Stock Exchange” which is a part of the the “Financial Times Stock Exchange (FTSE) 100 Index” until after 6 years it was acquired by Ford. And finally it had been acquired by Tata Motors.

The Land Rover Company

Land Rover was a company that was specifically engaged in producing “four wheel” drive cars. Globally it was ranked as the oldest or most-aged “four wheel ” drive car. Initially “Rover company” was using “Land Rover” for a specific type of car model or brand know as the “land Rover”. Years later it evolve into a wide dimension of four wheel drive brands such as the “Defender”, “Freelander”, “Range Rover Evoque” , “Range Rover Sport” and many more. In addition it was classified as a product line within the Rover Company which was imbibe into the “Rover Triumph” section of the “British Leyland Motor Corporation” that was acquired by Rover in 1967.

After 3 years the Rover company decided to created the “Land Rover Company” as a stand-alone business but was still considered as a subsidiary of the “Rover Group” .later in 1994 the Rover Group was acquired by BMW as well after years later it was acquired by the “Ford Motor Company” in which immediately it was absorb as part of “Premier Automotive Group.” After 3 years later (i.e in 2008) “Land Rover and Jaguar” was sold out to Tata Motors.

5.2 Acquisition of Jaguar & Land Rover by Tata Motors

June 2008, Tata Motors accomplished the M&A deal of the two major global car manufacturing companies: “Jaguar and Land Rover (JLR)” for an amount of \$ 2.3 billion

1 For more information (Batra 2012)

from “Ford Motor Company”. Like I have mentioned earlier JLR was part of Ford’s “Premier Automotive Group” and were referred to as the British major figure within the car industry in the United Kingdom.

Tata Motors acquired JLR to attain a new model into their portfolio, diversify and expand their line of business world wide considering the fact that business operation period had remained for a long period of time as an indigenous or domestic car manufacturer within India and as well with this M&A deal Tata Motors had been recognised globally.

Historically, Tata Motors find it difficult to enter into the global car markets, and therefore the acquisition of JLR enable Tata Motors to achieved their long waiting ambitious goals as well as the the opportunity to involved in the global market of producing classic cars. Even if Tata Motors domestic cars were not ranked among global outstanding performances within the car manufacturing industry, Tata motors fit or meets the needs of it customers. It have confidence in their ability of improving and developing new innovations into to their daily operations which is one factor that helps a company to continuously be at par with other competitors as well as attract more customers.

JLR performances was bad in the past years before Tata acquired it but despite that, Tata Motors used mechanical innovations into the company products(i.e cars) then revalue it and deliver it to the global market successfully which fortunately boost up the entire company operations and they were able to re-gain their positions in the United Kingdom as well as in the global market.

Furthermore, after the M&A deal Tata Motors did not operate JLR from its headquarter in India rather it left the day to day management under the control of key personnel in the United Kingdom.

Key quotes about the deal

“Investment analyst (FT)”

“This deal not only gives Tata Motors a complete design portfolio in terms of having luxury and value-for-money cars. It also brings them up to a completely different level in terms of being a global passenger car company.”

“Ian Callum (Director of Design, Jaguar): 2008”

“We have shown Tata our new model lines and the planned product cycle. The two national cultures appear to fit together very well and Tata is being very respectful about what we are doing.”

“Peter Marsh (FT)”

“The integration between the UK vehicle brands and Tata Motors, the Indian company’s automotive division, will be marked by a “softly” approach characterised by “Tata’s interest in maintaining the goodwill of existing managers and keeping most working practices intact.”

“Ratan Tata (Chairman of Tata)”

“We are very pleased at the prospect of Jaguar and Land Rover being a significant part of our automotive business. We have enormous respect for the two brands, and we will endeavour to preserve and build on their heritage and competitiveness, keeping their identities intact. We aim to support their growth, while holding true to our principles of allowing the management and employees to bring their experience and expertise to bear on the growth of the business.”

“Alan Mulally (President and CEO of Ford)”

“Jaguar and Land Rover are major models. We are confident that they are leaving our fold with the products, plans and team to continue to do well under the control of Tata Motors. As support to the M&A deal, Ford will continue to deliver JLR with key components such as engineering support, technologies and even services”

In summary, as I have mentioned earlier the M&A deal occurred during the financial crisis so there were lots of difficulties in the period that the deal was made. Tata Motors was striving with the debt it borrowed to complete the deal as well to worsen the situation of Tata Motors condition, it was obliged to invest another extra huge amount of money into the deal. Even though the scheduled date to pay back the loan was getting closer, Tata was not able to generate more revenue in order to be free from the debt as a result it was affecting the operations of the company. However, after so many efforts, strategies and finding different ways of generating income, Tata was able to redeem from the debt it took for the M&A deal.

5.3 Motives for the acquisition of Jaguar and Land Rover(JLR)

Motives for M&A deal can vary depending on what a company may desire to achieve or expect from the outcome of the deal. Like I had already discussed above in chapter

that motives may include; achieving economies of scale, reduce risk, diversification, to enter new markets, internal or external growth and so on.

First and foremost, Tata Motors had anxiously desired to expand globally into the world markets which was one of their main motives to undertake the M&A deal.

Tata Motors wanted to broaden its product portfolio and diversify into the international markets. Even though domestically it was the best in India, it had encountered difficulties and restriction to penetrate into the international automobile sections. By acquiring JLR, Tata gained access to expand globally as well as be the owner of the major player in the car manufacturing company which gave it a world wide recognition. Another motives for Tata to involve in this M&A deal was to revamp its technology in order to be at par or in competition with other key players in the market. As well the opportunity for achieving synergies was part of Tata motives in order to generate more revenue and achieve value creation.

5.4 Managing the Integration Process

From a general point of view managing the integration in M&A deal is highly important for the M&A success or failure outcome of the deal because this is where a value can be created if managed well and can be destroyed easily if it is not properly managed. For a company to obtain a success from the outcome of M&A deal it is of great importance to manage the whole integration process right from the start of the M&A deal up to the last stage of the process and even beyond in order to maintain continuous success balance in the operation of the company. Success from M&A deal can not be accomplished by a mere fact of relatedness but by thorough effectively managing whole process. According to “Shrivastava, 1986” pointed out that poor management of the integration process can lead to a failure.

The major financial benefit and the enhancement of success for a company to be achieved is in the management of the integrating process. During this process lots of things can go wrong or could be identified either risks, faults, lack of something in a section or segment etc and to find ways during this phase to modify and mitigate these problems. Thus effective managing integration process can also enable the enhancement of synergies and lead to success whereas poorly managed integration process can hinder possible synergies, hence it may lead to unsuccessful M&A. It is extremely significant for companies to plan, create strategies, manage and execute the integration process very

well.

Corporate culture also fosters the integration process by combining peculiar cultures into one unique unified culture can help the smooth running of the business operations. Moreover, employees can perform their work effectively without worrying about how to do their role in a different way or set of strange culture that they have not been used to as well as they will find it difficult to adjust or adapt to the new culture settings. Corporate culture can be created either by formalising a friendly hierarchical structure, meaning that employees can carry out their work or tasks from top management directions or by formulating a framework of trust, clarity which will motivate employees to work based on self-directions or to use their own initiative in performing their job as well as it motivates them to reveal whatever faults he or she may encounter in carrying out a specific task. Corporate culture is paramount to understand the identity of the company which helps employees to be aware of the company's code of conduct, set of values, ethics etc. For instance, Tata created a code of conduct that involves all the subsidiaries and affiliates of the Tata group to enrol and sign in order to follow-up and understand the ethical issues related to all employees and to guarantee the orderly principles of the business ethics policy that is used to carry out the business operations (Birkinshaw, Bresman, and Hakanson 2000).

Corporate culture can be used as a tool to regulate behaviours, risks or problems that may arise either within or outside the company. Corporate culture is part of the company's assets and it can be classified into the category of intangible asset. In the case of Tata and JLR M&A deal, the integration process was aided by a group of a management team that was composed of key personnel from both Tata and JLR companies. The integration team created a scheme, strategies, and setting targets, ambitions to be achieved and the paths of how the integration process should be carried out. Also, the M&A manager was appointed who was in charge to set up specific projects, monitoring the schedule/timetable of the deal and overall handle any problems or concerns that may arise whether from inside or outside the company. Explicitly, there was also a project team that was created which comprised of "Main process team", "back-up team", "transformation team" etc. All these project teams were governed and were under the control of the general major team called the "overall personnel" (which consists of nucleus efforts of the core M&A managers). They were in charge of monitoring and fast-tracking projects managers, as

wells as sometimes over sees the other teams when they need a top management supervisions. All these teams and managers involved during the M&A process help the company to achieved the desired success ².

Another important aspect of the deal was that the company (I mean JLR) had it existing name, Tata didn't change it. In managing the integrating process Tata honor the and left the culture rather than to implement or oblige new culture from another country (in this case the Indian culutre) into JLR. These was absolutely no signs of Tata forcing or replacing JLR managers by Indian managers as well all the key personnel retained their jobs.

5.5 Tata Motors Limited and Jaguar Land Rover – Strategies and External Environment

The general strategy of the entity (i.e both Tata and JLR) was to re-establih the company products design and business operations. Overall strategies and innovation related to the company and the external environmental is an important factor for the company. The ambition of the company is to always put the “environmental innovation” as one of the core strategy to carry out operations successfully. Improving in this part of their strategies helps them to know which are most relevant area to conduct an investment such as:

- in their Products designs
- change the perations n different dimensions
- global corporate social responsibility
- above serve as a supportive system to the society for example they are providing chance to people(eith a worskshop or projects in some communities) through their “global corporate social responsibility (GCSR)”. Because of their impact on the environment and performing their GCSR recently they were able to win a noble award from the UK government title “Queen's Award” for their contribution towards development. This victory award had boost and added more value to the company being that they have considered as the first automotive business to become the UK’s responsible company of the year which is a great accomplishment and outstanding performance for the company ³.

2 See (Birkinshaw, Bresman, and H\akanson 2000)

3 For more information (Bruche 2010)

5.5.1 Products Strategy

This strategy enable them to discover the most relevant products developments design for their cars. The company work very hard in order to scale down external external environment factors that might affects the product design for the whole life cycle of their cars by concentrating on product innovation and modernizing them. Also with this strategy they are able to develop and produce large quantity of new technologies and quality cars of high standards to satisfy their customers requirements (Jaguar Land Rover, n.d.).

To accomplished this desired requirements, there has been huge amount of money invested in research and development aread, manufacturing and engineering to produce more quality products at faster pace in order to meet the rising demand from the global market. At thesame moment effectively engage in improving on fuel efficiency. The company have been in corporation with supliers, government and academic institutions to develop modernize technologies such as the new “powertrains, electric” and “hybrid technology” as well as new modern equipments that is helping them to produce classic quality cars. To asses their products designs they created a specific strategy that was called “life cycle assessments(LCA)” that serve as a guide throughout the production of new cars ⁴.

5.5.2 The Life Cycle (LCA) Assessment Strategy

For the “Life Cycle Assessment” the company created a group of internal expertise for monitoring the LCA. They are responsible for the development of cars, focusing on how to decrease the impact on the environment from the procurement of raw materials right to the end of producing the cars. The LCA permit the the group and the company as a whole to know the total environmental impact on their products as well enable them to find areas where their main impacts is and later use this informations to notify and caution future research and production improvement.

The company use LCA strategy to measure the environmental impacts of the removal of raw materials, production of products and clearance at the final end of the products.

This impact is usually called the potential global warming that is found in the carbon dioxide. Another impacts conatins other emissions to the air and water. The LCA help them to think carefully at the beginning of their design process such that it also

⁴ See (Jaguar Land Rover, n.d.)

motivates the designers and engineers to bring innovative ideas to help handling the challenges they normally encounter from various aspects such as from the raw materials and equipments and the process system used in the designing the cars. However though this LCA strategy does not give an outcome/results at a faster pace but the group is devoted in doing many analysis and rectifying their processes which allows them to develop more innovations as well it allows engineers to evaluate the environmental impact of several components during the design process of the company ⁵.

In addition, for each new car section they have the ability to finish a full LCA process. As well with this strategy they had also achieved a recognition and certification from the “vehicle certification agency” for complete cars Life Cycle Assessment. Furthermore, they had established their abilities which allows them to operate two concurrent LCA projects at the same time for example the Range Rover Sport and the Jaguar F-Type. They did this through the investment of a specialised software tools, thus they keep improving the know-how abilities of their environmental engineers is such a way to transmit the LCA process instead of restricting it to experts (Jaguar Land Rover, n.d.). This embeds

knowledge and understanding within their teams, enabling earlier consideration of life cycle impacts in future vehicle design and material choices. Recently all the new Range Rover s were completely validated before the due date of delivering them to the markets. In order for them to know the overall impacts of every components they had added more impact sections such as the developing of acid rain, rate of resource exhaustion and utilization of water to coordinate intimately with the full process of the LCA model . With this LCA they are able to learn and inspect each stage in designing new cars which help them to find or create new methods in producing more qualities of their product. Through their good performances and quality production, the company had become the first car company to have officially accomplished a well known analysis of the total environmental impact of a car in the United Kingdom (Jaguar Land Rover, n.d.). Finally, the LCA process enables the company to see clearly right from the materials, resources used and right across a lifetime of customers utilization, to ultimately eventually get rid of it or recycling it.

⁵ For more information see (Jaguar Land Rover, n.d.)

5.5.3 Investment on Technologies, research and development

This is another strategy of the company in which they are making hefty investments in innovation, R&D and effectively improving existing technologies which help to create extremely less carbon and good performance of their cars in order to reach the needs of current and future customers.

It concentrates more on certain sections such as scale down engines, aluminium architectures, provides lightweighting and creating substitute technologies of hybrid and electric powertrain. Through this strategy they were able to create a new adequate ultralow emission, petrol engines and lightweight 4 cylinder diesel was established in order power the new current and future JLR cars. The current “Jaguar XE” mid sized sports saloon exhibit the usage of their advanced technologies. Also they have invested in hybrid technology, diesel hybrid versions of the Range Rover and Range Rover Sport are presently accessible which keep the same “all-terrain” competence as non-hybrid brands. Absolutely with this strategy they had already established developments exhibiting it into practice by the launch of all the lightweight recent new Range Rover sport hybrids ⁶.

The company have invested in a new engine manufacturing centre that will concentrate on specific advanced engines like the 4 cylinder low emission diesel and petrol engines and lightweight. Since the company is expanding they are aiding the supply chain of global extension. Furthermore, in order to lower the environmental impact across the life cycle of their cars they use the powertrain efficiency, establishing the hybrid, electric technology and lightweighting to minimise this impact. Through the effective managing and implementation of their strategic investments, it assist them in cost savings of products development diminishing the dependability on physical prototypes and downsize the carbon dioxide by restricting the amount of prototypes needed to be driven and tested globally. To invest in technologies, innovations, research and development is very crucial towards their strategies. It takes more time approximately a minimum of three to five years to develop new technologies from the research to production stage, they have to predict the demanding level deliver the appropriate technology to their customers at the specified time. With the production of the “C-X75” they have reveal their devotion of the production of cars with more advance performances of their technology and they

⁶ See (Jaguar Land Rover, n.d.)

usually tried to receive important components from the showcase of their technology for additional development then later applied it for future production (Jaguar Land Rover, n.d.). The various teams

of the LCA and research exchange knowledge, skills and work together in order to develop advanced research projects that will enable them to achieve success in environmental innovations for current and future position. With this strategy they have also invested a huge amount of money on a recent project in collaboration with another manufacturing group name “Warwick Manufacturing Group” that has tie-up together with the “Tata Motor European Technical Centre” and the government of the United Kingdom which has given them the opportunity to work with major associates to establish an extensive area of more innovations in the future.

5.5.4 Sustainability Strategy

Another important strategy of the company is related to the sustainability of the company and the environment. This strategy is structured or viewed at a 360 degree, it has been used to picture the entire business and it's based on wholeness, understanding, responsibilities, perfection and corporate values. With both their perception and social environments in mind, stakeholders acknowledge this strategy as a significant concern as well to understand how best the company can react to global movement and where they can make a great impact. The company is concentrating on environmental innovation and coordination to boost up the sustainability of their products, business operations, and to maximise social improvements through advancing knowledge and improving lives across the world. Globally their aspiration is to enhance the lives of people through various programmes development that can improve the social, environmental and economic welfare of many communities worldwide. With this strategy they are able to accomplish it the support of their employees, thus they are devoted to make sure that employees are fully involved with sustainability objectives and purpose in order to help the company achieving its desired aspiration ⁷.

Changing the mindsets and behaviours of both their people and customers will play a pivotal role in driving these forward. Also in continuing implementing this and other strategies they have fixed a long term goal to be accomplished by the year 2020. To guide and to assist them to achieve these targets, they created a roadmap that will be used to

⁷ See (Jaguar Land Rover, n.d.)

support their strategies as well as to give a whole transparent picture for every parts of the entire business and continue to improve on the progress they have earned ⁸.

Furthermore, knowing that there is global pressures on the increment of energy and fuel prices, limited resources and climate change that is contributing to new challenges and opportunities for mobility in the long-term, specifically the global growth of rapid population in urban areas. the company is using Jaguar Land Rover to deliver sustainable mobility in this regard and as well how they can enhance local and global societies in the process.

8 {Citation}

6. EMPIRICAL DATA

6.1 A Failure Case: Ebay and Skype

About eBay Inc.



In 1995 the online auction website was founded in San Jose California by a French-Iranian computer programmer Pierre Omidyar and it was originally called “Auction Web”. The idea of creating this website came from a discussion between Pierre Omidyar and his fiancée who was an avid Pez collector (dispensers). Through the help of his friend Jeff Skol, Mr Omidyar they were able to launch the Auction Web. It was incorporated in 1996 and changed its name to “eBay” in 1997 and a year later eBay went public in September 1998. The company was called eBay and the website was called AuctionWeb but both brands appeared on the site. It became an online trading and shopping website on which people, businesses, companies etc are able to buy and sell goods and services worldwide. It is the world's online marketplace for the sale of goods and services by various community of individuals, small or large businesses. eBay has been considered as the world's personal trading community (‘Business Case Research Report’ 2016).

The company operates in three primary business segments which are;

- (1) Marketplaces;
- (2) Payments, and;
- (3) Communications.

The eBay community has more than a hundred million registered members which connects hundreds of millions of people around the world every day, enabling them to search for new opportunities and innovate together. eBay enables these opportunities to be explored by providing the Internet platforms of choice for global commerce, payments and communications. According to Media Metrix, people are spending more time on eBay than any other online site, making it the most popular shopping platform on the Internet. On an average day, there are millions of items listed on eBay. People are always on eBay to either buy or sell items in various sections from collectible items like

trading cards, dolls, toiletries, old or ancient object that is of value, and household things to more practicable items like books, CDs, clothings, electronics items and used. Ebay created a featur called “Buy it Now” which enable buyers to purchase goods or items in an auction style format at a constant price. The company grew from a local flea-market and expand to a global trading platform market. Since then eBay consistently achieving more revenues than their anticipated financial performances. Its capacity to generate revenues was always higher than Google and Yahoo. In order to bidd or list an item for sale, buyer or seller are oblige to register on ebay websit. All the items listed on ebay can be seen by everybody even un registered users can see the items, but to buy or sell one has to register before trading on the website ⁹.

These are following ways of the trading process:

- Item is listed
- A seller’s track record of selling is made available to all
- Potential buyers can bid
- Sellers view buying track record of buyers
- ebay notifies winning bidder and seller of winning bid
- Payment made and goods shipped
- Buyers and sellers leave feedback on each other

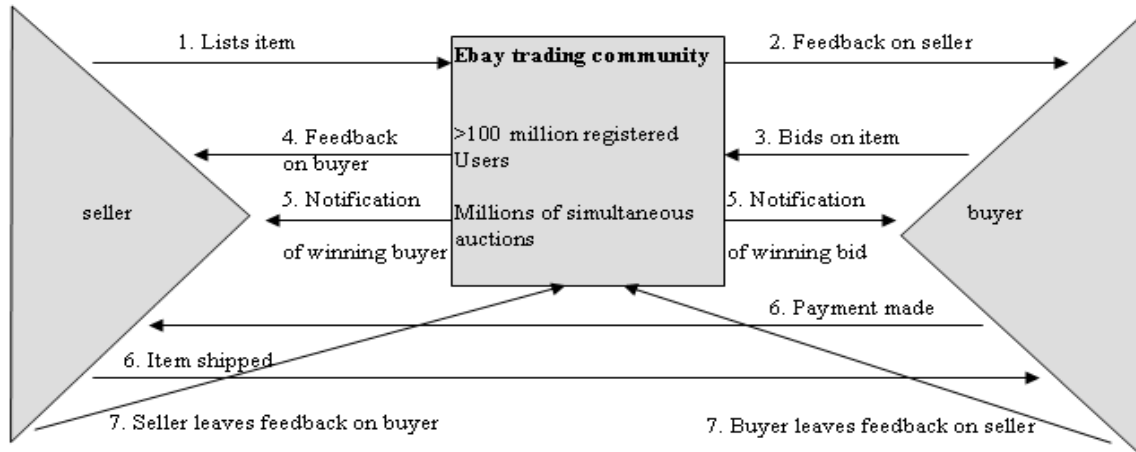
Ebay usually generates its income by charging sellers a small amount of money to exhibit their items and as well receive a small percentage of the successful bid/offer. For example items of less value like a book can cost a small amount of money to exhibit that particular item. Or a novel which may have a digital picture of the bood can be exhibited by a seller for a small amount of money. On the other hand, for more valuable items for example an automobiles or a car to be exhibited on the site the seller will pay more money. For example in the case of exhibiting a car ebay charges the vendor 6 euros which may sell for thousand of euros and as well ebay will receive a small percentage of the winning offer. Ebay entire system is based upon trust but there is also an opportunity for rogue or deceitful traders who can cheat and steal money from honest traders. Ebay created a specific which is called the “feedback system” that is been use to minimise risk of trading with cheaters ¹⁰. This feedback system allows sellers and buyers to see the trading

9 For more information see (‘Business Case Research Report’ 2016)

10 See (‘Business Case Research Report’ 2016)

record of each other before deciding to trade. This assists honest traders to differentiate genuine ones from deceitful traders. As well new traders will have to establish themselves as a honest trader before others will trade with them, else no transaction will occur if one does not convinced that the other is trustworthy to do any transaction with him/her.

Figure 6.1: **Operations of eBay**



After good performance records eBay had expanded by including some major brands in the world into their operations such as PayPal, StubHub, Shopping.com, skype and others. Ebay had developed an international market place without an associate other than few stocks and commodity exchanges. Ebay's market place justify the sale and purchase of used items which means that ebay always has the highest amount of buyers and sellers compared to other markets. Buyers enjoyed a wide range of goods and services while sellers are rewarded with high conversion price. Sellers are able to have the opportunity of optimise their sales and profit by connecting to the world wide market place. Buyers and sellers have the opportunity to search several sections and compete in the auction platform. Ebay created an online guidance in order to guide customers on the auction websites through a common four procedures:

- i) register
- ii) search and find products/services
- iii) offer and then
- iv) sell

The auction market place connects buyers and sellers to form a big market place to

resell goods or enabling buyers and sellers to find each other and then make a transaction. The major part of ebay success had been centred around trust. The idea of trust is highly significant because traders are doing transactions with people they don't know. There are several sections on ebay site that have been created in order to make buyers or seller be more comfortable to transact with strangers over the internet. Like the feedback forum which users to give their opinion to other eBay users and fix a rating profile. Sellers feedback ratings stated by another ebay users can have a determinable effect on his or her own auction prices. There is also another programme called "SafeHarbor" which involves three segments: community watch, investigation and fraud prevention. This program is used as a guiding tool for trading and methods of solving conflicts. Also there is another program called " Protection program" which allows users to communicate to each other on good or products that has not yet been received or there is insufficient description of the item. However, unsettled problems about items can be submitted to ebay safety and trust team as a claim.

About Skype



In 2002 skype was founded by two entrepreneurs; Niklas Zennstrom and Janus Friss both from Sweden and Denmark respectively and it headquarter is in Luxemburg. It was established in 2003 wherein the first public version of skype was released. Initially it was called "Skyper" and it was later rename as skype when the company learned that Skyper was not easily available on important website domains beacause some of the domain names associated with "Skyper" were already taken. Skype is a software that enables the world's conversations. The software is based on Voice over Internet Protocol (VoIP) on a peer-to-peer (P2P) network. The founders created this softwrae application in order to enable people to make free telephone calls over the Internet. Millions of individuals and businesses use Skype to make free video and voice calls, group or conference calls, send instant messages and share files with other Skype users. Every day, people everywhere also use Skype to make low-cost calls to landlines and mobiles.

The first stable version of Skype was released in 2004, since then the number of users kept on growing. Nowadays Skype claims having more than millions accounts and between 6 and 8 millions of users simultaneously connected ¹¹.

Some of the features of skype software are :

- VoIP from computer to computer: which is the most used feature especially because it is free and you can talk as many hours as you can, so long as you have strong internet connection.

- VoIP from computer to regular phone (also known as Skype Out): by registering on Skype's website it is possible to buy credit and then call all over the world with very reasonable rates as compared to other rates applied by phone companies or other networks. Through the launch of the SkypeOut service (and later on the SkypeIn service), the company attempted to integrate its VoIP offering with the old PSTN by extending its services and allowing connection to users not having Skype. Also through a SkypeOut account, a customer could call a traditional phone line (landline or mobile) at a competitively low (local) rate.

- VoIP from regular phone to computer (Also known as Skype In): Skype sells phone numbers

available for three month or a year. Those numbers can be issued from 14 different countries. This way, no matter the country where the customer lives it is possible to have an American or a French or any country phone number. In addition, by introducing the new SkypeIn service, Skype users were able to obtain up to 10 different telephone numbers, which made them accessible to the conventional PSTN users. The obtained telephone numbers could be local numbers from different countries in the world. Capitalizing on the Internet as the global distribution medium, Skype offered its product for distribution in fifteen languages allowing immediate penetration to over 165 countries. In addition, Skype partnered with Plantronics and Siemens AG to launch branded headsets and accessories. These strategic partnerships had a long-term objective of enabling seamless customer transition from traditional services to their VoIP product. Plantronics was a proven headset manufacturer, particularly popular with the Internet customer base, while Siemens AG produced high quality telephone equipment and computer hardware. Targeting the market niche, Skype's position in the IP telephony was based on innovation and personalization of the services. "Voice is just

¹¹ See (Abdelilah Mounir 2005)

the beginning. Once you are in the IP environment you bring in video and data, it's all about who can create the best application, it's about interactive media.'

Instant Messaging feature is also another feature that is comparable to many other instant messaging clients like MSN Messenger, Yahoo! Messenger, Google Talk, etc. The main difference is that Skype does not tell the user whether the person he is chatting with is typing or not. This is due to the P2P design of the Skype network. Skype had actively sought out and extend 'VoIP' as its own platform, bringing in the best from the worlds of telephony and the Internet. Competitors like Vonage are largely stuck in the mold of the 20th century telephone or cable company by requiring additional hardware and large up-front costs to the consumer. Skype offers an unbeatable value proposition for the end-user with free calls. To make Skype-to-Skype calls requires no cost to the consumer, and this is especially attractive for what amounts to a new communications paradigm for most users. Once you're ready to graduate to SkypeOut, Skype's PC-to-phone services, the initial cost is about \$12 with no monthly commitment. Sign-up for your own local SkypeIn (phone to PC with free voice-mail) telephone number and spend another \$12. For a complete phone solution you have paid a lot less than the setup fee for a company like Vonage. Skype employs a cost structure quite different to that of its telecom rivals. Free calls are routed through the Internet, generally with peer-to-peer technology ¹². Skype does not manage its own network, therefore, and incurs only minor costs for client software and the hosting accounts. SkypeOut charges are only slightly higher than those Skype itself incurs for calls routed through wholesale carriers. Skype also earns licensing revenues from brand partners, such as mobile operator 3 in the UK, with devices from Logitech, and from a number of plugin services they co-market. In summary, Skype makes its money:

i. From user services:

- Premium service that build on free services: groups video, group screen sharing, live chat and unlimited calls to selected countries
- Accessory service: Televisions, mobiles and tablets computers use.
- Sale of applications: eexample business, games, translation etc.

ii. From licensing opportunities example:

¹² For information see (Abdelilah Mounir 2005; Rao, Angelov, and Nov 2006)

- Skype-Nokia and Skype-MySpace relationships
 - Hardware royalties
 - Carrier relationships such as the skypephone
- iii. Advertising opportunities yet to be properly developed.

6.2 eBay Motives for Acquiring Skype

There are numerous motives as of why eBay acquire skype. The company saw potentials in Skype's voice services and as well saw that Skype got the resources to compete with rivals ranging from Google, Microsoft and Yahoo to Verizon and Vonage. According to Hani Durzy, a spokesman for eBay said that “They feel like they can do a lot more with Skype as a stand-alone VoIP provider, adding that "Skype has been focused on user acquisition, and it's done a great job. “But we also feel like eBay can find new ways to monetize those users as well as expanding eBay's global footprint into emerging markets like India, China and Russia, which are typically characterized by gray markets, low levels of trust, a culture of haggling, and price sensitivity, as well as facilitating cross-border trade.” Below are the most important motives:

One of the main motive of eBay buying skype is that it saw great potential in using Skype's peer-to-peer voice over Internet Protocol technology to connect buyers and sellers in the eBay marketplace. There were grand plans to integrate eBay's PayPal payment system with Skype's VoIP network.

Another motive of eBay for buying skype is that it will help not only recharge existing and new business within eBay but as well help it to involve in an entirely new online communications business. Together, eBay believe that they can purse some very significant growth opportunities, according to eBay Chief Executive Margaret C. Whiteman mentioned that “They can create an unparalleled e-commerce engine by combining the two companies. Also since trust is notoriously hard to develop through digital communication means, if the transaction is conducted face-to-face where trust can be built through evidence of behaviour, body movement, intonation, facial expression etc then buyers and sellers wouldn't hesitate or worried so much about fraud so therefore with the acquirin skype ebay's belief that more personal communication(voice and video) will introduce the perception of face to face contacts and will therefore reinstate the missing channel that can be used to deliver evidence of trust during the transaction time.

Ebay sees that skype could be used to drive users to Paypal's micropayment system starting in with mobile phone content and later with Skype calls. The situation could evolve where buyers and sellers could use their mobile phone / Skype handset as a payment method and this is something many companies are attempting to do especially in some countries like for example Japan so eBay sees it as good motive to go in for skype acquisition. This will help Ebay to has its own payment vehicle and as well its own user gateway. Paypal's micropayment plan is essential because without allowances for smaller transactional amounts fewer producers and users will migrate to the Paypal system.

eBay believes that Skype also could help eBay accelerate its business just as the 2002 purchase of the online payment service PayPal did. The key appeal for eBay at the outset: the ability to offer its buyers and sellers an entirely new way for people to do business online: lead generation, or pay per call. Margaret C. Whitman said, lead generation holds "the potential to accelerate some of eBay's existing sections, such as used cars, business and industrial gear, and high-end collectibles. A number of sellers do put phone numbers in their listings, such as in real estate, so there's some apparent demand for this." eBay also would try to use Skype to expand its moves into new markets, such as new cars, travel, real estate, personal and business services. Those markets already are accustomed to both paying for leads and talking directly to customers throughout the purchase process. Indeed, Whitman said this new business model would be ideal for some of eBay's new forays, such as its Kijiji international classified-ad site and its recent purchase of the shopping comparison site Shopping.com, which makes money from Google-style referrals. That's a particular advantage, Whitman said, in international markets such as China, Eastern Europe, and Brazil, where online trust isn't as well-established and where haggling may be more of a cultural force. Indeed, Skype's especially strong internationally, particularly in areas eBay has not yet penetrated to a great degree: Eastern Europe, the Nordic countries, and Asia, especially China and Japan. For all that, buying Skype is a great move for a company that for most of its history has stuck to its e-commerce knitting-even as other Internet leaders from Yahoo! to Google continue to expand their reach. Although Whitman took pains to draw parallels between the Skype acquisition and eBay's purchase of PayPal, buying Skype is clearly a big departure from eBay's previous

expansions, all related to e-commerce in one way or another ¹³.

In addition to paying eBay listing and completed-auction fees, sellers also could pay eBay a fee for getting an Internet call, or lead, via Skype.

Furthermore another important motive for the acquisition is related to synergy, there were synergies possibilities that could be acquire or achieved by the acquisition. That is synergy between Paypalproduct, ebay markets and skype held promise in various ways;

a) with eBay products sellers could engage prospective buyers to boost sales and prices, especially for collectibles and high tickets item. As well buyers could chat with others during bidding wars, buyers might bid across national borders if they could develop trust in a foreign buyer through a chat or call.

b) Skype video call could let sellers demonstrates their product for buyers to see before buying them. Also users could wire money to each other via Paypal product and top off their SkypeOut accounts through Paypal products.

6.3 Acquisition of Skype by eBay

eBay purchased Skype for \$2.6 billion in October 2005, but analysts were skeptical. Analysts and investors were wondering how the company could pay such a hefty premium on a company that essentially provided free or low-cost voice minutes in a market that is dominated by large incumbent telephone companies. While analysts were trying to determine Skype's possible long-term impact on the telecommunication industry, the company announced that it had agreed to be taken over by eBay Inc., the leading online auction-house. This acquisition ignited a host of different opinions about the real value of Skype as a company and about the nebulous business plans of eBay (concerning its new acquisition) in the future. One of the reasons for these reactions was the price eBay agreed to pay for Skype. The online auction giant acquired all of the outstanding shares of the privately-held Skype for a total upfront consideration of approximately \$2.6 billion; \$1.3 billion of which was in cash and the rest in eBay's stock. In addition, there was a performance-based earn-out as big as \$1.5 billion, if Skype reached certain performance goals by 2009 that is to say eBay pledged to pay \$1.5 billion more if Skype meets its revenue targets over the next few years after the acquisition. Even though there were many experts who believed Skype could be a

¹³ See (Bylund 2008; Gopalkrishnan and Gupta 2007)

Google-sized opportunity (one of them being Kevin Werbach, legal studies and business ethics professor at Wharton Business School), most of them agreed that a takeover of the company had potential, but it would be definitely a surprise for them (considering the difference in culture between Skype and major telecom and media companies). And while companies like Yahoo, Microsoft, Google, and News Corp. were rumored to have a vested interest in buying Skype; eBay was the company that actually did the acquisition. Even though eBay announced that it was not going to transform itself into a phone company, it did emphasize the importance of communications as being at the heart of e-commerce and community, thus considering Skype as the road towards creating extraordinarily powerful environment for business on the Net. In some way, the partnership between eBay and Skype could turn out to be another type of potentially disruptive opportunity. Skype could now count on eBay to support its brand and image (along with its financial needs). This could prove extremely favorable for Skype, especially in times when the VoIP community believed in corporate customers to be the key towards global telecommunications convergence, and whilst Skype was being attacked for its reliability, quality and security promises. As a business opportunity, Skype could increase the velocity of trade on eBay, add a voice bargaining option to its large customers, and introducing “pay-per-call” advertising with the potential of generating significant revenue. As far as Skype’s future was considered, PayPal (an eBay owned company) could provide simple, secure, and reliable billing and accounting, exactly what Skype needed for its corporate customers. In addition, eBay’s strategy left Skype highly independent as a brand and as a business, something large telecom and media companies would have rarely done. The acquisition of Skype has definitely shed a different light on the previously acclaimed disruptive character of the company. However, the fact that Skype was bought by eBay, not Microsoft or News Corp., left room for additional opportunities for technology and business fusion, and thus for a host of new “potentially” disruptive technological and business models. If today we are interested in the impact of the fusion between VoIP and P2P, future research could delineate the possibilities of combining P2P and online auctions or advertising ¹⁴.

The acquisition had been hailed as a new frontier in combining e-commerce with

14 See (Gopalkrishnan and Gupta 2007; Frank Y.Guo and Sulekha Nair 2006; ‘Skype, eBay Divorce: What Went Wrong’ 2016)

communications to be specific VoIP service. Though EBay was not alone on the internet phone bandwagon, because few months before the acquisition Google introduced Google Talk, a voice or instant message service, and Microsoft announced that it would buy Teleo; a competitor to Skype, Yahoo and AOL have their own voice-over-instant message services. So eBay was desperate to have Skype in order to be in the same trend as the others and moreover in order to find new subscribers and to stem fraud. eBay acquired Skype in order to use Skype in combination with PayPal to enable a remote trading platform with the communication technology of Skype and the payment process of PayPal. As Skype is a free service that lets users talk to each other via computer, would increase eBay's transaction volume by making it easier for buyers and sellers to talk to each other. According to eBay CEO "Meg Whitman" she theorized that eBay could start collecting new fees from its users by charging for some premium Skype services. The acquisition will strengthen eBay's global marketplace and payments platform, while opening several new lines of business and creating significant new monetization opportunities for the company. The deal also represents a major opportunity for Skype to advance its leadership in Internet voice communications and offer people worldwide new ways to communicate in a global online era. Skype is considered the market leader in virtually all countries in which it does business. In North America alone, Skype has more users and serves more voice minutes than any other Internet voice communications provider.

During the acquisition phase: eBay acquired all of the outstanding shares of Skype for a total up-front consideration of approximately \$2.6 billion, which is comprised of \$1.3 billion in cash and the value of 32.4 million shares of eBay stock, which are subject to certain restrictions on resale. The maximum amount potentially payable under the performance-based earn-out is approximately €1.3 billion, or approximately \$1.6 billion, and would be payable in cash or eBay stock, at eBay's discretion, with an expected payment date in 2008 or 2009. Skype shareholders were offered the choice between several consideration options for their shares either to receive it as a single payment in cash and eBay stock at the close of the transaction or to receive as a reduced up-front payment in cash and eBay stock at the close plus potential future earn-out payments which are based on performance-based goals for active users, gross profit and revenue.

The above-mentioned dollar and eBay share amounts are approximated, based on the currency exchange rate and eBay's stock price as of September 2005. The final value of the stock component of the consideration may vary significantly from this estimate based on the value of eBay stock at closing. Skype generated approximately \$8 million in revenues in 2004, and the company was expecting that it will generate an estimated \$61 million in revenues in 2005 and more than \$200 million in 2006.

Key Quotes about the deal

“The vision for Skype has always been to build the world’s largest communications business and revolutionize the ease with which people can communicate through the Internet,” said **Niklas Zennström**, Skype CEO and co-founder. “We can’t think of any better platform to fulfill this vision to become the voice of the Internet than with eBay and PayPal.”

“We’re great admirers of how eBay and PayPal have simplified global ecommerce and payments,” said “**Janus Friis**, Skype” cofounder and senior vice president, strategy.

“Together we feel we can really change the way that people communicate, shop and do business online.”

“Zennstrom and Friis” will remain in their current positions. Zennstrom will report to eBay CEO Whitman and join eBay’s senior executive team.

“Communications is at the heart of ecommerce and community,” said **Meg Whitman**, “By combining the two leading ecommerce franchises, eBay and PayPal, with the leader in Internet voice communications, we will create an extraordinarily powerful environment for business on the Net.”

However online shopping depends on a number of factors to function well. Communications, like payments and shipping, is a critical part of this process. Skype will streamline and improve communications between buyers and sellers as it is integrated into the eBay marketplace. Buyers will gain an easy way to talk to sellers quickly and get the information they need to buy, and sellers can more easily build relationships with customers and close sales. As a result, Skype can increase the velocity of trade on eBay, especially in categories that require more involved communications such as used cars, business and industrial equipment, and high-end collectibles. The acquisition also enables eBay and Skype to pursue entirely new lines

of business. For example, in addition to eBay's current transaction-based fees, ecommerce communications could be monetized on a pay-per-call basis through Skype. Payper-call communications opens up new categories of ecommerce, especially for those sectors that depend on a leadgeneration model such as personal and business services, travel, new cars, and real estate. eBay's other shopping websites Shopping.com, Rent.com, Marktplaats.nl and Kijiji which can also benefit from the integration of Skype. PayPal and Skype also make a powerful combination.

For example, a PayPal wallet associated with each Skype account could make it much easier for users to pay for Skype fee-based services, adding to the number of PayPal accounts and increasing payment volume.

In addition, Skype can help expand the eBay and PayPal global footprint by providing buyers and sellers in emerging ecommerce markets, such as China, India, and Russia, with a more personal way to communicate online. And consumers in markets where eBay currently has a limited presence, such as Japan and Scandinavia, can learn about eBay and PayPal through Skype. Skype can also help streamline cross-border trading and communications. With its rapidly expanding network of users, the Skype business complements the eBay and PayPal platforms. Each business is self-reinforcing, organically bringing greater returns with each new user or transaction. The three services can also reinforce and accelerate the growth of one another, thereby increasing the value of the combined businesses. Working together can create an unparalleled engine for ecommerce and communications around the world. The acquisition expands eBay manifest destiny well beyond its roots as an online marketplace which helps sellers sell on the major shopping venue. With the acquisition eBay try to keep up with its diversified rivals like Amazon.com, Yahoo, Google in battling to win ove more internet consumers or customers.

6.4 Managing the Integration Process

Effectively managing and integrating the M&A process are the two main fundamentals for the successul outcome of M&A deal. Before the integration process ebay realise that there areas of low coverage that need effective communication system. Some areas were barely covered and there was a need for communication in order to improve the coverage. So in that light the method of enhancing the coverage and transactional trust was addressed by integrating skype into ebay so as to provide free calls, videos calls,

instant messaging and connecting buyers and sellers as well as trading partners. Integrating Skype into eBay marketplace was a natural step for eBay in order to strengthen its consumer to consumer business model and build more trust among users. With the integration of skype's technology buyers and sellers were allowed to make telephone calls over the Internet for free. The Skype project was developed with both eBay buyers and sellers in mind. For buyers, this helps facilitate a smooth and trustworthy transaction experience by efficiently communicating with sellers. For sellers, having the flexibility of real-time communication enhances their customer relationship management, which can in turn help reduce transaction friction. eBay also benefits from reduced friction on its marketplaces via improved transaction velocity. The role of Skype was especially important for categories that involve a lot of interpersonal interaction, such as vehicles and other expensive items. During the integration process eBay created a group of designers, product managers, and creative designers which was launched within the second year after the M&A deal to integrate Skype into eBay platform. The goal of the project was to implement various skype services icons on eBay online platform on items that are listed on the website which will enable buyers and sellers to communicate and interact. Since then skype has been integrated into the fabric of ebay interaction so that it was possible to make easy and free skype calls between consumers and traders. And specifically ebay was developing skype in several directions example improving the instant messaging, video conferencing, ringing tones, skype developers etc. eBay had integrated Skype chat and voice into hundreds of categories on eBay sites globally. By integrating Skype into ebay marketplace, eBay sellers have the option or choice to include Skype as a means of communicating through their eBay listings. This is an effective way of communicating as well as encourage both the buyer and seller to have a free flow of communication when transacting business. By this way sellers can provide quality customer care, good relation with customers, directly answering questions/queries about an item/products, strengthen trust and in return buyers will be more comfortable to trade without being afraid of dupe or fraud because he or she has already known or had that friendly conversation with sellers. Buyers also feel more confident to ask for details to get answers using the chat or call button, without waiting for long time to receive a reply about his or her queries through email (Frank Y.Guo and Sulekha Nair 2006).

However, by choosing this option facility when sellers list their items or products they will be immediately asked to state whether they would prefer to offer Skype to buyers as a means to contact them. If a seller does not have Skype installed on the computer, he or she will instantly be redirected to install Skype into their list (see Figure 6.2). After it has been installed, the “SkypeMe buttons” will pop up on the listing menu to notify the seller that he or she can now use this facility. On the other hand, on the buyer side, when the buyer visits the “View Item page” where details of items are listed, the buyer will also be immediately requested to install Skype, that is, if the seller offers Skype on the listing menu (see Figure 6.3). Once Skype is installed, the buyer will be redirected to the listing menu in order to complete the transaction. Then the listing menu will have the SkypeMe buttons (see Figure 6.4), which allows the buyer to either call (using the Call button) or send an instant message (using the “Chat button”) to communicate directly to the seller, thereby enabling and fostering faster and instantaneous communication between buyers and sellers (Frank Y. Guo and Sulekha Nair 2006)



Figure 6.2; This is a screen shot of the platform on ebay website that allow sellers to use skype when listing their items and use it as a means to communicate to buyers ¹⁵

15 This diagram was taken from (Frank Y.Guo and Sulekha Nair 2006)

home | pay | register | services | site map

Start new search Search


Buy Sell My eBay Community Help

Java™ (POWERED BY Sun)

Back to list of items Home > Art > Paintings > Antiques (Pre-1900) > European

DAVID(The Younger)TENIERS 17thc Flemish LISTED Item number: 740532532896

Bidder or seller of this item? [Sign in](#) for your status

 [View larger picture](#)

Current bid: **US \$99.00** [Place Bid >](#)

Buy It Now price: **US \$650.00** [Buy It Now >](#)

End time: **Sep 10-05 11:30:00 PDT** (4 days 10 hrs)

Shipping cost: **US \$5.00** ([discount available](#))
Standard Flat Rate Shipping Service within United States ([more services](#))

Ships to: Worldwide

Item location: Slidell LA, United States

History: [5 bids](#)

High bidder: [delboy0905](#) (343 ★)

You can also: [Watch this item](#)
[Email to a friend](#) | [Printer version](#)

Listing and payment details: [Show](#)

Buy today and make no payments for 3 months using PayPal Buyer credit.
Total purchase must be over \$50. [See details](#) | [Apply now](#)

Meet the seller

Seller: [onegreatseller](#) (5993 ★) [Power Seller](#) [mP](#)

Feedback: **99.5% Positive**

Member: since Dec-09-1998 in USA

- [Ask seller a question](#)
- [Read feedback comments](#)
- [Add to favorite sellers](#)
- View seller's other items: [Store](#) | [List](#)
- Visit seller's store:
[Assorted Bargain Plus](#)

Contact the seller instantly

[skype](#) [Download for free](#)

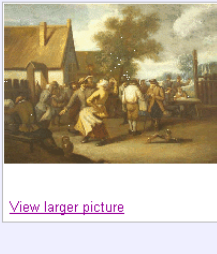
Buy safely

- Check the seller's reputation**
Score: 5993 | 99.5% Positive
[Read feedback comments](#)
- Learn how you're protected**
[PayPal](#) Shop without sharing your financial information
Returns: Seller accepts returns. [10 days money back](#)

Figure 6.3 This is another part of the platform for sellers who indicates skype as a means of communication about their item or products to be contacted and then buyer can choose to download it ¹⁶

DAVID(The Younger)TENIERS 17thc Flemish LISTED Item number: 740532532896

Bidder or seller of this item? [Sign in](#) for your status

 [View larger picture](#)

Current bid: **US \$99.00** [Place Bid >](#)

Buy It Now price: **US \$650.00** [Buy It Now >](#)

End time: **Sep 10-05 11:30:00 PDT** (4 days 10 hrs)

Shipping cost: **US \$5.00** ([discount available](#))
Standard Flat Rate Shipping Service within United States ([more services](#))

Ships to: Worldwide

Item location: Slidell LA, United States

History: [5 bids](#)

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You can also: [Watch this item](#)
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Meet the seller

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- [Read feedback comments](#)
- [Add to favorite sellers](#)
- View seller's other items: [Store](#) | [List](#)
- Visit seller's store:
[Assorted Bargain Plus](#)

Ask seller a question

[skype](#) [Chat](#) [Call](#) | [Email](#)

Buy safely

- Check the seller's reputation**
Score: 5993 | 99.5% Positive
[Read feedback comments](#)
- Learn how you're protected**
[PayPal](#) Shop without sharing your financial information
Returns: Seller accepts returns. [10 days money back](#)

Figure 6.4 This is the other platform after a buyer could have downloaded skype in which will enable him/her to communicate, ask question or have any query to say to the seller see also (Frank Y.Guo and Sulekha Nair 2006).

¹⁶ Also this digram was taken from(Frank Y.Guo and Sulekha Nair 2006)

6.5 Ebay and Skype- Strategies and External Environment of the Company

The strategies and external environment of a company help to shape, guide and aid it to carry out its business operations in a stable way. Strategies and external environment have an impact in the output performance of the company. However, regarding this aspect eBay design some strategies for the combined company to blend its strategy with Skype strategy and to formulate a new strategy from both blended strategies. This born strategy lead to a brand- new online communication trend in the platform of eBay for its day to day operations. Another part of the strategy was the “corporate strategy” which entails the total breadth and guidelines of the business various paths of its operations tasks to accomplish the desired set targets.

The corporate strategy was based on the fact that physically, anything and everything that can be bought and sold on the business platform can be aided by the internet traders with minimal credence, belief and trusts which amid sellers and buyers within the business platform as well improve allegiance for continual effective favourable relationships/contingency which motivates clear and conscientious communication between its users on the market platform.

After the acquisition and during the integration process the company stated it would spend at least a year evaluating Skype and its possible prospects of delivering synergies within the eBay portfolio before deciding on whether to maintain it into their business operations or to dismerge it and re-sell it. 2008 was the specified year of examining synergies between the online voice and video communications service and other eBay operations such as the “ auctions and PayPal payments” system. During the same year the new CEO by the name of “John Donahoe” created a new management team at Skype as a strategy, which was led by Josh Silverman that improved the performance of Skype with some new strategies implemented. By formulating and implementing more strategies, Josh brought some sought of firmness and steadiness to Skype after an uncontrolled period that triggered the evacuation of two Skype co-founders(i.e the departure of Zennstrom and Friis)." Almost 3 years of Josh incumbency, the company concentrated on the operations of what Skype was been incorporated into the overall business operations which were: the video calling, extending into personal computers, televisions and smartphones, diversifying revenue through subscriptions, premium

accounts, advertising and many more .

By implementing this strategy, skype developed and delivered so many new products, strongly booming remodeling its windows software for computers as well as introduced a new software products for smartphones, android and consumer electronics for it operations. After the M&A deal “Skype feature” was released, featuring “full-screen high-quality video calling”. The Linux client was updated, an iPhone and samsung application was launched which surprised evryone to be recognised and used instantaneously with millions of people downloaded it within the first week of it released. However within this same period of lunching new applications skype also engaged in abolishing some applicatioins services that were not relevant or not so used by it customers like the "Skype Me", “SkypeCast”. Thus it replaced this terminated services with an internal monthly and daily usage services on their SkypeOut subscriptions operations.

As part of the strategy to diversify revenues, skype launched in April 2008 the “ Skype for Session Initiation Protocol” which is a communications protocol for signaling and controlling multimedia communication sessions, a service designed for business users. Also this strategy was not only developed for buyers and sellers within ebay only but also outside the online platform. With a marketing idea of expanding their business operations, the company collaborate with some television program like with TV broadcasters to integrate Skype into their programming operations or Live show performances. For example The Ellen TV show and Oprah Winfrey show began to use Skype frequently to make video calls between their show and their viewers at home.

Also globally most network broadcasting news stations used skype as a lucrative to do their broadcasting services like for example sending satellite trucks, a mobile communication satellite earth station that is specifically placed on top of a truck which are used as a remote television broadcast to channel video signal wave to the studio or station headquarter to be able to communicate to people. Skype was also integrated into scripted TV programming, such as an American comedy drama television series called “ californicatio” All these strategies and collaboration with the exetrnal environment led to accelerating growth of Skype's connected users and paying users. With all these facilities Skype was adding more and more new users each day to the combined company(both in ebay and skype forum itself).

7. COMPARISON AND DISCUSSION OF THE TWO CASES

From the two cases above that I have study in depth, in this chapter I will investigate any differences and similarities between the two cases as well as to outline the success and failure factors in order to verify as to why both cases were considered successful and unsuccessfully respectively.

First of all both cases are within the same industry and sector so there were chances of success from the M&A deal. As I had already mentioned earlier about some general propositions in chapter 3 which stated that if there is resemblance in the structures of the companies, there are possibilities for the M&A deal to be successful. In the case of Tata-JLR, there was a resemblance because both companies were from the same automotive industry and within the same business operations. The fundamentals of Tata Motors possess many best practices of the British industries that is to say Tata motor had some heritage from the British that have some common links including the establishment of Tata Group that was done during the British rule in India so there were not so much changes needed after the acquisition.

Also there were some more direct product relatedness to Tata motor's Sports Utility Vehicle segment with the Land Rover part of JLR, the acquisition represents a diversification into the segment of larger premium class cars an entirely new market for a vehicle manufacturer like Tata motors which was predominantly specialised in low cost and small cars so therefore it can be considered that Tata motors and JLR achieved a high organizational fit. As well in the case of eBay and Skype both companies are on the internet business sector but there were not so much similarities; only the communication area where the business model of the two companies benefit from network effects, that is both companies have software business model wherein value rises disproportionately fast with increasing members of the network. Like I had mentioned in chapter 6 that Skype connections was placed directly on the eBay site which allow customers potentially to phone sellers with a single click of the button as well as allowing sellers to place voice links directly on their eBay sites so that customers could click directly to a message and paying eBay a fee everytime they did. Whereas skype strengthen its links with eBay's subsidiary paypal which skype already used for managing payments for its skypeout service. Though the two companies had an exciting vision for the future which is to become the world's biggest and best platform

for all communication which involves texts, voice or video calls from any internet connected device whether a computer or a mobile phone but there was a lack of organizational fit between the companies, therefore this is one factor that contribute to the failure of the acquisition.

Another point from the general proposition stated that the more similar the environment surrounding of the two merging companies which includes similar cultures, identities etc, the more likely the merger would be a success. In the case of Tata-JLR, according to a report from the company they described their environment as being “*friendly and helpful*”. This means that senior managers are always working on the side of junior staffs and are always ready to help with suggestions, advices and as well work together as a team whenever it is needed. In terms of cultures there were no similarities between the companies because JLR came from 20 years under Ford control, a company whose culture and values differ deeply from Tata’s. People at JLR were very familiar with American and UK business practices, and shifting to Indian ownership culture should have been more challenging for everyone involved in the company. But for Tata understanding JLR both from a corporate and national cultural point of view, it decided not to impose Indian culture into the new company neither change its management completely. The big change the company did was at management level; a new CEO was appointed by the name “Ralf Speth” a former BMW and Ford executive. He had no affiliation or whatsoever with Tata before. One could have suspected a Tata manager to take over operations in UK but as demonstrated that was not the case. Instead after changing some of the management, Tata decided to leave the existing management structure intact and leave the national British managers to retain their jobs and positions. Indian cultural influence was completely absent in the new company, the change of ownership had little to do with the changing of culture. So therefore this is another factor that led them to be successful because “culture” in an organisation is a highly problematic concept and very challenging to address because changing it requires the visible and active support and engagement of both companies and if not properly handled or managed it can hinder the success of M&A.

In the case of eBay-skype there was a clash in the cultural area, there was lack of consistency differences in culture; Ebay was conservative Skype was democratic. The culture clash between the two companies was too great to overcome. “eBay is an

extremely conservative, bank-like culture,” Whilst “Skype was out to be the democratization of voice. In addition, there was a constant shuffling of management teams, meaning that skype went through several management teams during its four-year eBay period which is lack of consistency that didn’t help the acquisition at all to be successful.

Another possible factor for an M&A outcome is communications, it is vital in the whole process. In order to guide the M&A process and for it to succeed there should be an effective communication system between both companies as well as to the customers involve. Between the companies, communication from senior management must be significant, constant and consistent. Moreover, it must build confidence in the M&A and integration process, reinforcing the purpose of the merger with a tangible set of goals and provide decisive responses to a variety of stakeholders concerns. Each area of the deal must receive information that explain its role in the merger with a presentation that is tailored to them and consistent with the overall company message. Because of high levels of concern about the impact of the merger on their individual well-being, customers and employees need a very high level of communication throughout the process. Communication is a vital factor in M&A deal, in the case of Tata-JLR, one of the factors for deal to succeed was that Tata created an effective communication system. It maintain clear and open channels with all layers of the newly acquired company. Information was very important, especially in periods of abrupt change, and having the entire workforce to understand all that is required of them to carry on and implementing the deal.

Information was not only between the top managements of the two companies, but also there was a flow of communication to everybody involved. Managers were to consider that although effective communication is the best way to keep the workforce calm and efficient, as well for all to know that changes such as this one can take time to digest, and employees will not be able to understand immediately the new objectives and orientation of the organization.

Another factor is related to integration and extraction of synergies which is important when looking for factors of M&A success or failure. During integration the synergy potential between the companies is supposed to be realized and without effective integration it is not possible to speak about M&A success. An effective integration is an essential

but not single condition for the M&A and hence it has considerable importance in the M&A processes and the realisation of synergies. There are possibilities that if the integration effectiveness is higher, the M&A success are higher. In the case of Tata -JLR case there was an effectiveness in integrating the companies thus, the anticipated synergies that tata expected from the acquisition was realised such as to have well known brands in their portfolio, customer preferences for the car brands, emerging Indian car market, products being taken over by Tata group etc. Synergy can take the form of revenue enhancement and cost savings. Through effective integration they were able to generate synergies such as “*cost synergies*” and “*revenue synergies*”. With the “*cost synergies*” Tata motors had the competitive advantage from the overall International Market through the Tata Group. The cost synergies includes Tata motors was able to have joint venture in auto ancilliary space. Also through the cost synergy, in the international market they had acquired Corus, which provided the raw material at lower cost for manufacturing their products(i.e cars). As well Tata consultancy services provided help regarding the engineering design of their cars.

The revenue Synergies involves that; before integrating the companies it was expected that in the long run Tata group and Tata Motors should help Jaguar & Land Rover diversified the geographic dependence and they were able to realised this expectations. An example of the revenue strategies that was realised is that; Tata Motors benefits from substantial profitability and returns generated by its premium brands: Jaguar and Land Rover. Over the past five years, JLR’s revenue had increased more as compared to when it was under the ownership of Ford .

Furthermore, even though JLR’s existing product portfolios were different from Tata's, Tata motors obviously work closely with JLR's wherever it sees opportunities to exploit synergies. This was also another success factor for Tata-JLR.

In the case of eBay-Skype the companies did integrate but it was not so effective, there were challenges in technical integration and over-expectations from customers. Ebay expected synergy coming from Skype being established as the communication medium between buyers & sellers on its marketplace platform, which unfortunately did not become popular among its market participants. Ebay was expecting from the acquisition that integrating skype into eBay platform will help raise the average value of transactions by allowing buyers and sellers to communicate more easily. The more

information buyers and sellers have about each other, the more likely they are to carry out higher-value transactions like for example buying cars. However, the synergies proved more difficult to achieve than these promising avenues and expectations. As well the market was not ready to adopt Skype as a means to integrate with e-commerce when doing their transactions in the eBay platform. In fact eBay did included another extra money of approximately 1.4 billion to the deal if they managed to meet revenue and profit target in the years after the acquisition. But after four years of unfulfilled expectations it was considered as an unsuccessful M&A.

8. CONCLUSION

This thesis is centred around the concept on “Success and Failure of Mergers and Acquisition” and my goal was to thoroughly examine the significant perception as of why do some mergers and acquisitions succeed and others fail. What is the important rational behind this concept. I have studied indepth from a wide range of various previous researches, books and journals to gain more knowledge about this phenomenon and discussed about the volume of M&A activity, usually this data shows that there is sort of seasonality which can be referred to as merger waves that are related to the dynamic of the economy starting from the 90's, the amount of money involvled in the mergers nd acquisition activity is growing. I had discuss also about the reasons, motives, factors etc that motivate companies to engage in M&A activity. In particular I had selected and study indepth the sample companies inorder to verify as to why one had been considered successful and the other unsuccessful. As well as whether the deal that occurred was exactly fitting with the basic reasons or motives that the companies had been acquired for. The integration process, strategies, environment etc of the companies after the M&A and what happens few years later, say for example three to four years of the M&A deal whether they were successful or not. I also outlined the resemblance, differences and key factors of the outcome of the M&A in both cases. From my own point of view merger and acquisition can be considered as a success if it realise synergies, generate more revenues, and increases shareholder value faster than if the companies had remained separate or as a standalone business. Because corporate mergers and acquisitions can reduce competition, they are heavily regulated and monitored. In order to increase chances of the acquisition success, acquirers need to perform rigorous due diligence; that is a review of the targeted company’s assets and performance history-before the purchase to verify the company’s stand-alone value and unmask problems that could endanger the outcome. And also to implement an effective integration process. Also integration processes is the most crucial and most important factor for an M&A to succeed or fail, this is where a company can create and destroy value creation. The integration process are the steps that the acquiring company takes to plan and carryout the integration. The company should form an effective integration teams that should composed of key top management personnel and representatives from each area of both companies operations meaning that members can also be selected

from the company being acquired. These teams will guide the integration process, ensure that consistent communication takes place, receive employee feedback, handle problems as they arise, ensure employees are connected to the process, and adjust course as needed. The teams may be structured in a hierarchical framework according to levels or areas of responsibilities. For example, a senior-level team may have under it several teams broken down by company unit, which in turn leads teams broken down by responsibility within the unit.

In general, acquisitions occurred in way that always a larger company purchase a smaller one. From my own point of view the M&A between Tata and JLR was an interesting and strange acquisition because most of the Mergers and Acquisition in the world are of smaller company been acquired by larger one. But in the case of Tata-JLR it was the opposite. The size of Tata company is small as compared to JLR as well as the rating standards. I am sure is lower than JLR say for example JLR could be rated as AAA whilst Tata could be rated as AAB. Moreover, during the acquisition phase there was a serious economic crisis problem when the deal was made but despite this difficult situation and gap, Tata was able to turn around the acquisition into a successful M&A. So therefore, in a nutshell to sum up, mergers and acquisitions that are well conceived, planned and properly executed can yield greater value for a company and lead it to become a successful M&A.

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